TECHNOLOGY

3 MUST-HAVE WORK APPS

CEO INTERVIEW

LIZETTE LYNCH ON ROLFES' NEW DIRECTION

ECONOMY

THE COST OF SA'S PROLONGED DROUGHT

ENGLISH EDITION

finweek

FIND US AT: fin24.com/finweek

19 November 2015

WHERE TOP FUND MANAGERS ARE SPOTTING VALUE

MEET THE WOMAN BEHIND THE CAPE TOWN CBD REVIVAL

SHARE VIEWS ON:
KUMBA
ADVTECH
VODACOM
ARCELORMITTAL
TONGAAT HULETT

SA: R27.50 (incl. VAT)
Other countries: R24.12 (excl. VAT)

HARMONY'S NEW CEO: CAN HE GO FOR GOLD?

from the editor

JANA MARAIS

Over the weekend, I drove through Marikana, where I spent quite a bit of time between 2012 and 2014. All week, I've been struggling to shake that feeling of utter despair I always leave the North West's platinum fields with – so much natural wealth squandered; so little visible change since that fateful August day in 2012. Add to that the drought, the tanking rand, the water shortages, the steel industry under siege, Zuma's jet…

It reminded me of another depressing Monday morning late in 2012, a few weeks after the killings at Marikana. Mineworkers across the country were on strike. Sad South Africa, *The Economist* splashed on its front cover, carefully dissecting all our shortcomings in a scathing lead article. Moody's and Standard & Poor's had just kicked off their downgrades of SA's debt.

I had to interview Bobby Godsell, who built his reputation as a visionary leader during the mining strikes of 1987 and, at the time of our interview, was just named the winner of the *Sunday Times* Lifetime Achiever Award. Times are tough, Godsell admitted. "But don't talk about a problem if you're not also going to talk about a solution. The problems are well known."

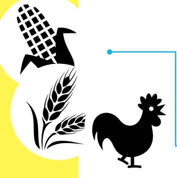
Admittedly, most of us can't do much to the tanking rand, the steel sector's troubles or Zuma's jet. But are we doing anything when it comes to those matters where we can actually have an impact? It's easy to blame government and political leaders. Much harder is to be an active citizen who is, as the beautifully written vision statement of the National Development Plan states, sweeping and cleaning one's own yard.

In the words of Godsell: "I think the real challenge is to love your country, demand your rights and the right to criticise everybody, but to work for solutions."

Matter of fact

In our Fund in Focus in the 5 November issue, we quoted Amanda de Wet, fund manager of the Plexus Wealth BCI Property Fund, as saying they are optimistic about Redefine's prospects. In fact, the quote should have read as follows: "We aren't optimistic about the growth side of Redefine. We think there are a number of other growth opportunities." We regret the error. ■

contents



EDITORIAL & SALES

Editorial Editor Jana Marais **Deputy Editor** Anneli Groenewald **Managing Editor** Ruwaydah Harris **Journalists and Contributors** Simon Brown, Moxima Gama, Jessica Hubbard , Robyn Joubert, Marcia Klein, Schalk Louw, David McKay, Shaun Murison, Buhle Ndweni, Jon Pienaar, Mills Soko, Jaco Visser, Nerina Visser, Glenda Williams **Sub-Editors** Stefanie Muller, Jana Jacobs **Office Manager** Thato Marolen **Layout Artists** Beku Mbotoli, Tshebetso Ditabo, Zandri van Zyl **Publisher & Advertising** Sandra Ladas sandra.ladas@newmediapub.co.za **General Manager** Dev Naidoo **Circulation Manager** Armand Kasselman 021-443-9975

Published on behalf of Media24 by New Media Publishing (PTY) Ltd Johannesburg Office: Ground floor, Media Park, 69 Kingsway Avenue, Auckland Park, 2092
Postal Address: PO Box 784698, Sandton, Johannesburg, 2146 **Tel:** +27 (0)11 713 9601 **Head Office:** New Media House, 19 Bree Street, Cape Town, 8001
Postal Address: PO Box 440, Green Point, Cape Town, 8051 **Tel:** +27 (0)21 417 1111 Fax: +27 (0)21 417 1112 **Email:** newmedia@newmediapub.co.za
Executive Directors **Group Commercial Director:** John Psillos **Managing Director:** Bridget McCarney **Non Executive Director:** Irna van Zyl
Printed by Paarlmedia and Distributed by **On The Dot** Website: **http://www.fin24.com/finweek** Overseas Subscribers: **+27 21 405 1905/7**

ENQUIRIES

SUBSCRIBERS
087-740-1019
subs@finweek.co.za

Fax
0864-575-918

SHOPS
0861-888-989
assistance@onthedot.co.za

Share your thoughts with us on:
@finweek finweek finweekmagazine

By Mills Soko

POLITICAL ECONOMY

The price of China's economic support

South Africa-Chinese relations have no doubt been mutually beneficial. However, certain concerns regarding Chinese influence on the local political economy remain.

The Forum on China-Africa Cooperation summit, which will take place in Johannesburg next month, will once again cast a spotlight on the relations between South Africa and China. Since the establishment in 1998 of diplomatic links between the two countries, the bilateral relationship has grown rapidly to become one of the closest between an African country and the emerging global superpower.

The importance both countries attach to the burgeoning relationship is underscored by the frequency of high-level visits undertaken by political leaders in recent years. Underpinning the strong political and diplomatic ties has been growing economic cooperation.

Viewed through China's lens, SA's bountiful mineral wealth has elevated Pretoria-Beijing relations to strategic importance. Also, China views SA's regional power status as justification for elevating cooperation to a strategic level. This explains why China pushed hard to extend an invitation to SA to join the Brics grouping. The creation of the Brics Development Bank represents an opportunity for SA to tap into an alternative source of finance to address the economy's development needs. Thanks to China, SA is also a member of the Asian Infrastructure Investment Bank.

In SA's strategic calculations, China's import resides primarily with it being a growing source of foreign investment that SA needs desperately to ameliorate pressing domestic social challenges, notably high unemployment, poverty and inequality. SA regards China's support as crucial to promoting Africa's interests in the United Nations and other multilateral institutions. SA also views the deepening of economic links with China (and with the other Brics countries) as central to its economic strategy of diversifying its external trade away from Europe.

There is no doubt that the South Africa-China relationship is in many ways complementary and is poised to become stronger and grow further in the future.

Dalai Lama

Chinese President Xi Jinping shakes hands with South African President Jacob Zuma at The Great Hall Of The People in September in Beijing, China.

There is no doubt that the SA-China relationship is in many ways complementary and is poised to become stronger and grow further in the future. Yet the question this raises is whether SA can sufficiently accommodate China's needs and, if so, at what cost. Satisfying China's needs will depend on the extent to which domestic constituencies in SA – mainly labour unions, the business sector and civil society formations – feel that their concerns about China's influence on SA's political economy are being addressed.

Labour unions have voiced concerns about the impact of Chinese textile imports on local jobs and wages: they have blamed the 'neo-colonial' nature of the trade relationship for the de-industrialisation of the SA economy. The local business community has questioned SA's decision to grant China market-economy status, making it very difficult for local firms to prove that the Chinese government gives its companies an unfair advantage. Also, China's economic expansion into Africa has been seen as a threat by South African companies who have lost market share in SA's 'near abroad'.

Civil society organisations have voiced uneasiness over the baleful influence of the expanding SA-China economic relations on SA's foreign policy. The Dalai Lama visa debacle attests to the reality that economic pragmatism has trumped the foreign policy idealism of the Mandela years.

China has shown that it is attuned to the sensitivities of South African domestic politics. That is why, for example, it previously acceded to SA's request to impose quotas on its textile exports (albeit for only two years) and undertook to work with SA to correct the unbalanced trade profile between the two countries – by urging Chinese firms to expand investment in the country's manufacturing sector and promote local beneficiation of raw materials.

It is clear, however, that China's responsiveness and flexibility in this regard will remain conditional upon SA maintaining unfettered access to its mineral resources for Chinese firms, upon not questioning China's policy positions in multilateral forums and upon not interfering in China's domestic affairs – as evidenced by the Dalai Lama affair. China's economic support for SA, therefore, comes at a price. The question is whether South Africans are prepared to pay it. ■

editorial@finweek.co.za

Mills Soko is an associate professor of international political economy at UCT's Graduate School of Business. He is the deputy chairperson of the editorial board of New Agenda, as well as a member of the editorial boards of Global Governance and AfricaGrowth Agenda. He is a research associate of both the South African Institute of International Affairs and the Institute for Global Dialogue. He is a member of the Evian Group's Brains Trust and of the Africa Business Network.

Lintao Zhang/Getty Images


Power to being on top of tech trends
Stay up to date with all the latest phones, reviews, videos, competitions and what's new for you on the Vodacom now! hub.
now.vodacom.co.za
Vodacom
Power to you
Terms and conditions apply

By Marcia Klein

EMPOWERMENT

The silence on that R5.8 billion...

Lonmin is keeping mum on Shanduka's non-repayment of a huge loan at a time when the platinum miner is cutting 6 000 jobs, idling shafts and asking shareholders for a $407m bailout to keep the business afloat.

It is surprising that Lonmin has gone to ground on the material issue of the non-repayment of a loan to Shanduka, which has escalated from R2.3bn in 2010 to a massive R5.8bn by Lonmin's September year-end and leaves its BEE status in jeopardy.

The company refused to comment on the status of its relationship with Shanduka, or on Shanduka's expired loan other than to say that Lonmin was waiting for Shanduka and Pembani to finalise their merger – a move which will see Shanduka's effective 9% Lonmin stake transferred to Phuthuma Nhleko's Pembani. Lonmin had, some weeks ago, indicated it already thought Pembani was in possession of the asset, but it is not.

> **Lonmin is stuck between not getting paid by Shanduka and not being able to fund another expensive BEE deal.**

Shanduka has indicated it has the right to decide not to repay the loan and forfeit its investment as well as its initial payment of R300m.

Lonmin's financial results, published on 9 November, reveal it has now impaired $227m (R3.2bn) of the loan, which stood at $409m (over R5.8bn) at its September year-end. This is in addition to the $80m Lonmin impairment on this debt in 2014. It now accounts for the Shanduka debt at $102m (R1.4bn).

Shanduka has told *finweek* it has chosen not to repay the loan. "Shanduka Group chose to exercise its independent business decision to not repay the loan and face the consequences of the loan conditions. The loan conditions state that Lonmin has the right to take over the investment if the loan is breached, and Shanduka Group will forfeit both the investment stake and its initial R300m investment into Incwala Resources," stakeholder relations manager Mmabatho Maboya said. Later, however, Shanduka CEO Phuti Mahanyele, who resigned in February but appears to have stayed on, said: "We remain committed to our investment in Incwala Resources, a BEE partner of Lonmin."

Phuti Mahanyele
CEO of Shanduka Group

Lonmin will not confirm whether Shanduka has informed it on whether it will or won't repay the loan. Both parties' statements to date raise the question of whether Shanduka and Lonmin have agreed that Shanduka will keep its stake and not pay for it – a prospect that will be a bitter pill for Lonmin's shareholders and funders to swallow. They have been asked on numerous occasions to cough up in rights issues and loan agreements. Lonmin reported a loss after impairments of $2.26bn for the year to end September and net debt of $185m. Its net assets are valued at just $1.6bn after an impairment charge of $1.8bn. It will now come to shareholders and funders again; it will raise $407m in a rights issue, and has conditional amended banking facilities of $370m.

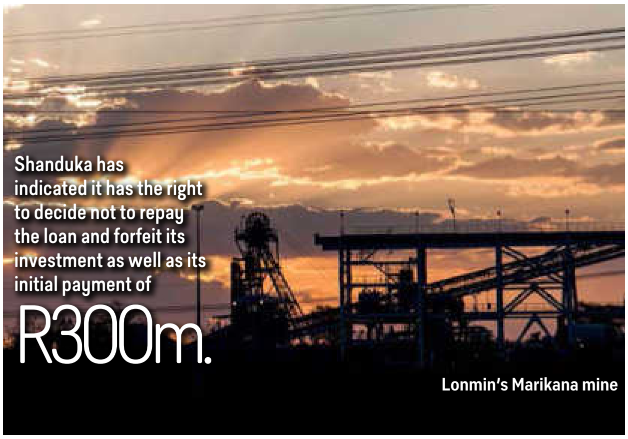
Shanduka's effective 9% stake is held through its 50.03% interest in Incwala, which has interests in a number of Lonmin operations. This means it does not have to participate in the rights issue. But it is not clear if Incwala's effective share in the group will be diluted in the rights issue. Lonmin is stuck between not getting paid by Shanduka and not being able to fund another expensive BEE deal.

Shanduka has argued that since its investment in 2010 – which was funded via a R2.3bn loan from Lonmin and R300m of its own money – none of the payments to Incwala, which include advanced dividend payments (R1.3bn) and loans (R510m), were to repay Shanduka's debt. These payments were used to repay debt in Incwala prior to Shanduka's investment, or to repay debt in Lonmin operations in which Shanduka has an interest. If this is accurate, Lonmin is still paying for previous BEE deals and impairing the Shanduka loan, while still trying to stay afloat. Apart from its capital raising, it is closing shafts and getting rid of 6 000 workers.

In November last year it also entered into other BEE deals. Its deal with the Bapo ba Mogale traditional community, on whose land Lonmin mines, gives the community 2.25% of Lonmin in exchange for a royalty-for-equity swap; the sale of the Bapo's 7.5% stake in the Pandora Joint Venture to a Lonmin subsidiary; a R450m future royalty payment and a R149m lock-in premium. Lonmin has also concluded a deal with the Bapo community to issue shares outside of the rights offer at a lower price so that Bapo retains its stake.

Lonmin's BEE conundrum plays no small part in its fight for survival. Its solution, however, could be unpalatable for shareholders but potentially – should Lonmin's fortunes improve – a windfall for Pembani which may, possibly, end up with an unencumbered stake in Lonmin despite Shanduka's upaid R5.8bn. ■

editorial@finweek.co.za



Lonmin's Marikana mine

Waldo Swiegers/Bloomberg via Getty Images

Marcia Klein is a financial journalist who has worked in reporting and editing roles at *Business Day*, *Sunday Times* and Media24.

in brief

"THIS IS A DARK CLOUD WITH NO SILVER LINING. AND IT'S NOT A RAIN CLOUD."

– Astral Foods CEO Chris Schutte on the impact that current El Niño conditions are having on the agriculture sector. Due to the current drought, South Africa will need to import an estimated 770 000 tons of maize this season, at a cost of about R2.2bn at current prices, according to Agri SA. This will result in SA becoming a net importer of maize for the first time in seven years. (Also see page 29.)

"It takes about six to nine months for monetary policy to hit the economy, so I think the Fed by going in December, isn't necessarily too late, but further kicking of the can may put them a little bit behind the curve."

– David Lebovitz, global market strategist at JPMorgan Asset Management, in an interview with CNBC after the US released a better-than-expected job report for October, strengthening the case for a rate hike by the US Federal Reserve in December. Lebovitz said the economy has been strong enough to withstand an interest rate hike for some time. He warned that inflation presents more of a risk than many people appreciate, and prices could rise to the Fed's target of 2% as soon as March. Low interest rates at a time of rising inflation raises the risk the economy will overheat, CNBC reported.

"Unless there is a rally in platinum prices, I don't see how the long-term economics work out for this business where operational costs are being met, but little internal free cash flow is being generated."

– Carole Ferguson, a senior research analyst at SP Angel in London, discusses the prospects for platinum miner Lonmin in an interview with *Business Day.* Lonmin's share price fell by as much as 40% following its results announcement and details around a proposed $407m (R5.8bn) rights issue on 9 November, its third in six years. Lonmin's current market capitalisation is R1.3bn.

HAPPY BIRTHDAY SLINKY!

70

The Slinky, which was originally developed by mechanical engineer Richard James as an anti-vibration device for ship instruments, is celebrating its 70th birthday, *The New York Times* reported. Legend has it that James accidentally knocked some of the springs off his desk and saw them take slinking steps, illustrating their potential as a toy, it reported. More than 300m Slinkys have since been sold.

RATE HIKE

70%

The odds of the South African Reserve Bank deciding on an increase in interest rates on 18 and 19 November are now 70%, according to the forward rate agreement market (where parties contract to fix a future interest rate for a period in the future), *Business Day* reported. The expectation is for a 0.25% increase, which will bring the prime lending rate to 9.75%.

DONE DEAL FOR SABMILLER

$100bn+

Anheuser-Busch InBev, the world's biggest beer brewer, formally reached a deal to buy SABMiller at £44 (R947) a share, it said on 11 November. This values the deal at $106bn (R1.5tr) at current exchange rates. AB InBev has also reached a deal to sell SABMiller's 58% stake in MillerCoors for $12bn. The combined group, whose brands will include Budweiser, Stella Artois, Peroni and Grolsch, will brew almost a third of the world's beer.

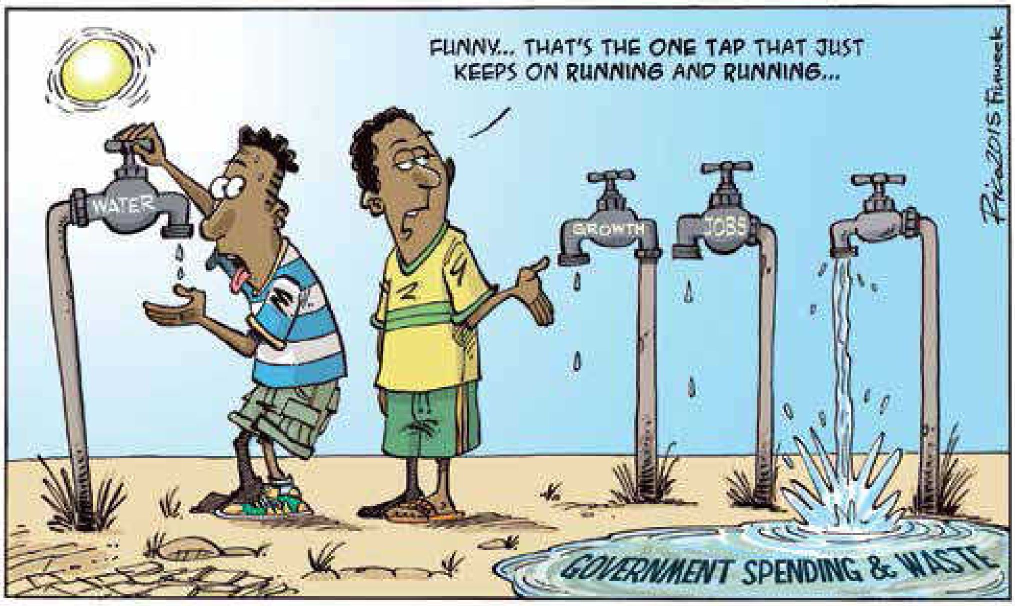
GLOBAL GROWTH

2.9%

The global economy is expected to grow by only 2.9% this year, well below the long-run average, according to the latest research by the Organisation for Economic Cooperation and Development. Growth is expected to strengthen gradually to 3.3% in 2016 and 3.6% in 2017. "But a clear pick-up in activity requires a smooth rebalancing of activity in China and more robust investment in advanced economies," it said.

DOUBLE TAKE

BY RICO



THE GOOD

Concerns over the **state of China's economy** have caused much anxiety in financial markets this year, but if the annual Singles' Day shopping spree is anything to go by, there is no reason to be concerned. E-commerce giant Alibaba saw sales of more than $1bn within the first eight minutes, while total sales surpassed $9bn in the first 12 hours. Last year, Alibaba's total sales on Singles' Day, the world's biggest online shopping event, were $9bn.

THE BAD

Twitter has arguably been the best provider of information on the protests at university campuses in recent weeks. **Violence marred protests** at the University of the Western Cape on 11 November and raised questions about the motives of protestors, with critics saying it is no longer about valid student concerns. Most worrying, however, is the impact on students. As student Nosisa Bomvana said on Twitter: "Writing exams in January will delay my graduation, delay my community service training and delay my life actually."

THE UGLY

In a recent Moneyweb column, economist Mike Schüssler highlighted **how SA has been faring relative to other nations.** In 1990, we ranked 50th in the world based on average per capita income; we've since dropped to 86th (on average, we're worse off than the average person from China, Azerbaijan, Turkmenistan, Belarus and Bulgaria). On a per capita basis, the average South African earns only 63% of the average world citizen. In 1994, SA was the 25th biggest economy in the world; last year we were 33rd.

BANKERS' BONUSES DROP

<10%

Bonuses in the financial industry are expected to fall by between 5% an 10% this year, according to compensation consulting firm Johnson Associates – the first time since 2011 that compensation for the industry as a whole is expected to drop, *The New York Times* reported. Bankers in private equity and mergers-and-acquisitions will continue to do well, but bonuses in investment and commercial banking will be down 30% from 2009 levels, it said. The average securities industry bonus last year was $172 860 (R2.5m), according to the New York State Comptroller.

ROLLS-ROYCE RECALL

1

BMW, owner of Rolls-Royce, had to issue a statement to recall one Rolls-Royce Ghost for faulty airbags. The car in question was manufactured on 23 January 2014, and the front airbags will be replaced free of charge, it said. The Ghost has a base price of $250 000 (R3.5m).

Nigerian hustle

We've recently been selling some of our belongings. Sometimes it's difficult to express to people just how close political and fiscal change are at all times in Nigeria; how fast one feels the effects of a policy change by the central bank; how easy it is to notice the impact of protectionist trade policy on even the most basic aspects of life – things you'd like to think a government wouldn't be able to touch.

By way of comparison, I find it interesting that in more than two decades of living in Britain, I never once remembered feeling any impact from any budget. Now that I think about, it is pretty extraordinary.

For the past few weeks, I have been using the sale of our things as a handy proxy for illustrating the current friction between the Central Bank of Nigeria and those of us trying to get by.

We sold some books a couple of weeks ago; the announcement on Twitter that we were shifting them was met with instant, voracious interest. The local publishing industry is on its knees because of power problems, and most available books are low-quality pirated copies sold in traffic jams. Our books might have been second-hand and a little beaten up, but they were extremely welcome.

And when an academic came over to buy a handful of them, she asked if she could pay us by bank transfer. Answer: no, because our only account is dollar denominated, and among the central bank's recent slew of prohibitions is one that bans cash deposits into foreign-currency accounts in Nigeria. Off our buyer went to find a functioning ATM.

Then there's the furniture: most of it sold in five minutes flat to an oil executive who didn't see any need to sit on the sofa or try out the comfort of the bed. She paid with wads of dirty naira notes she had brought with in a bulging shopping bag.

There is no contest between my quality stuff shipped in from Singapore (sold at prices that indicate I want to be rid of them) and the low-quality Chinese-made furniture (sold at high prices that reflect the difficulty of getting household goods through the port).

For the past few weeks, I have been using the sale of our things as a handy proxy for illustrating the current friction between the Central Bank of Nigeria and those of us trying to get by.


The protectionist policies of the Nigerian central bank (pictured) have a direct and tangible impact on citizens' lives.

The rest of the furniture is meant to be going to another friend, but the irregular payment of his salary means there's no guarantee he'll have the cash come the day we want the things gone.

As for the kitchenware, if I'd known underlying demand for well-made aluminium pots and pans was so strong, I'd have come to Nigeria as a saucepan saleswoman years ago. People have been more than a little abrupt in their hunger to get their hands on my pans which, until a couple of weeks back, I hadn't thought were anything special. Now I know I'll be pushing the prices up and hawking them only to the highest bidders, like a true Nigeria hustler.

So here you see, just from my one little household, three business opportunities in Nigeria. Find a way to import books, furniture or kitchenware and you're made, because the demand and the margins are there. All you need to do now is prepare for a harder slog, higher barriers to entry, more hassle and slower progress than you would have had with any other business you've conducted. ■

editorial@finweek.co.za

#trending on fin24.com

More MTN execs could face axe

Analysts stated that more senior execs at mobile network MTN might leave the company. This followed the resignation of its CEO, Sifiso Dabengwa, on 9 November, after MTN was fined $5.2bn by the Nigerian Communications Commission after it failed to switch off 5.1m unregistered sim cards in a timely manner.

9/11/15 11:58

Uber, WesBank in R200m car rental deal

Driver-partners of internet ride-sharing service Uber will have easier access to cars following a R200m agreement with vehicle finance provider, WesBank, and FirstRand's enterprise development fund, Vumela. This partnership will allow Uber driver-partners to rent cars from WesBank as part of a three-year full maintenance lease programme, based on the driver-partners' established earnings and quality record. They also would need to have been with Uber for at least three months.

10/11/15 10:34

Skywise co-chair denies fleet withdrawal

On 10 November, Skywise insisted that it was still operating its six daily flights between Johannesburg and Cape Town. This followed media reports that the airline had withdrawn its only aircraft due to non-payment. Skywise co-chair Tabassum Qadir said these reports were incorrect. "The fleet has not been withdrawn. We had a technical issue with one aircraft, which led to a dispute with one of our lessors. We have already signed a new lease with another lessor for two aircraft," Qadir said.

10/11/15 16:26

George Osodi/Bloomberg via Getty Images

By Buhle Ndweni

Four things you should know about MTN

finweek gives you the facts about the recent happenings at the telecoms giant.

WHAT?

MTN Group CEO Sifiso Dabengwa resigned on 9 November with immediate effect after the Nigerian regulator fined the group a record $5.2bn (R74bn at current exchange rates) on 26 October for failing to adhere to deadlines in August and September to disconnect 5.1m unregistered sim cards.

It is widely speculated that the high-profile kidnapping of former Nigerian finance minister Olu Falae was the catalyst for the massive fine, as Falae's kidnappers used phones with unregistered MTN sim cards when they called to demand a ransom for his release. MTN was also unable to provide authorities with the information needed for their investigation.

Former MTN group CEO and current non-executive chairman Phuthuma Nhleko will now take the reins as executive chairman for a maximum of six months while the group looks for a replacement for Dabengwa.

WHO?

Dabengwa was appointed president and CEO of MTN Group in 2011 after serving as MTN Group's COO for seven years. His MTN career started as managing director of its South African operations. In 2004, he was given a dual role as both COO and CEO of MTN Nigeria, which he occupied until 2006.

Spearheading MTN Group is no unfamiliar task for Nhleko – he was MTN's non-executive director and chairman between July 2001 and June 2002. He later became executive director, group president and CEO of the telecoms giant for almost a decade, until he vacated the position in March 2011. Under his leadership, MTN's subscriber base rose to over 150m. In 2013 Nhleko, a civil engineer by profession, was appointed MTN non-executive director and chairman.

Sifiso Dabengwa
Former CEO of MTN Group

Nigeria is MTN's biggest market with **62.8m** subscribers (compared with SA's 28.5m and a total of 231m subscribers in 22 countries).

Phuthuma Nhleko
Executive chairman of MTN

WHY?

News of the record fine in Nigeria sent MTN's shares plummeting, wiping more than R60bn off its market capitalisation. (Also see page 33.) Nigeria is MTN's biggest market with 62.8m subscribers (compared with SA's 28.5m, and a total of 231m subscribers in 22 countries).

The company was also fiercely criticised for the way it announced news about the fine, with an official statement only issued in the afternoon of Monday, 26 October despite news reports on the matter already surfacing in Nigeria the day before. The delayed communication even prompted the JSE to investigate the company for possible insider trading. News of Dabengwa's resignation saw the share price close up 1.6% on 9 November.

WHAT'S NEXT?

For a smooth transition, MTN would possibly look at one of its vice-presidents, who head up its regional divisions, says Dobek Pater, partner at advisory firm Africa Analysis. Pater says the position requires a strategic thinker. "In my view, it needs to be someone that knows the telecoms market, in particular mobile, and [has] good knowledge of developing markets, particularly in the African space, maybe the Middle East as well," he says. "Certainly in Africa we have seen in the past that some of the Middle Eastern executives from MTN did not necessarily understand the African environment where the culture is different and the approach to dealing with some issues is different."

In the meantime, media reports indicate MTN's largest shareholder, the Public Investment Corporation (PIC), is putting pressure on the telecoms provider, and on its board, to provide an explanation and to develop a turnaround plan. ■

editorial@finweek.co.za

By Anneli Groenewald

Agoa: Billions in agri trade on the line

The US will cancel South Africa's duty- and quota-free access for agricultural products on 4 January unless sufficient progress is made to ensure market access to SA for American poultry meat, pork and beef. Prof. Nick Vink, chair of the department of agricultural economics at Stellenbosch University, explains some of the complexities around the negotiations.

***finweek:* South African agricultural exports stand to lose full beneficiary status of the African Growth and Opportunity Act (Agoa) by 4 January. Can this still be prevented?**

Nick Vink: President Obama's letter [on 5 November] to the US Congress stated that progress in negotiations about access for American (specific cuts of) poultry meat, pork and beef to the SA market has not been satisfactory. He gave SA 60 days to consider its negotiating position, after which the status of SA agricultural exports as a beneficiary of Agoa will be withdrawn (the rest of SA's $1.7bn exports of non-agricultural goods have not been put into play – or at least not yet). If SA were to come with a counter-offer within 60 days, the US would consider retracting the statement about lack of progress.

Prof. Nick Vink

Chair of the department of agricultural economics at Stellenbosch University

***fw:* Can SA afford to lose its Agoa beneficiary status?**

NV: There are geopolitical considerations to this dispute that go far beyond the issue of trade in three agricultural products between the two countries. But the economic costs are also quite serious. SA benefits substantially from duty-free access to the US market via Agoa – according to the Trade Law Centre (tralac), SA exported $176m worth of agricultural products to the US under the duty-free concession, which is virtually all of our agricultural exports to the US (valued at R2.3bn in 2014). The US is our sixth-biggest export destination for agricultural products, and key sectors such as the wine industry have started to target this market.

***fw:* If SA removes the contentious trade barriers, what implications would it have for the local agriculture sector?**

NV: The current negotiations are asymmetrical, in the sense that the USA is not asking SA to remove all barriers to trade in especially poultry meat, pork and beef, but rather to improve the offer that SA has made with regard to these three products.

The US currently gives SA duty-free access on virtually all agricultural exports into the US – but on the other hand is prepared to deny us duty-free access on *all* agricultural exports that currently benefit from Agoa. As a result, South African exporters have gained much, and stand to lose much. But what the offer does is to pit South African exporters of poultry meat, pork and beef against South African exporters of all other agricultural products – a clever negotiating tactic.

The industries in the direct firing line, and especially the poultry industry, are being pressured to make more concessions to US exporters (but not to go all the way). The technical complexity of the industries is but one of the complexities in a negotiation within SA that has to balance the interests of different industries, of producers and consumers, and of the state in terms of the wider geopolitical considerations. It is therefore difficult to say offhand whether SA will benefit or not by any new offer to the USA – it will depend on the extent of access to the South African market that is being offered, on which products are in play, and on how South African and US traders (exporters and importers) of other commodities react.

***fw:* Is a positive outcome possible?**

NV: The SA offer, if there is going to be a new one, will depend on the balance of influence with government amongst the three industries (poultry meat, pork and beef), and the balance of forces between these three industries and other exporters of agricultural products. Importers, local producers for the domestic market and exporters have opposing interests, and producers and consumers also have opposing interests.

SA exported **$176m** worth of agricultural products to the US under the duty-free concession, which is virtually all of our agricultural exports to the US (valued at R2.3bn in 2014).

Successful negotiation depends on finding that calculus that balances these interests in a way that keeps everyone interested in the outcome. Obviously, the USA has more legal experts, more negotiators and ultimately a bigger defence force than SA, but if we play the game according

What the offer does is to pit South African exporters of poultry meat, pork and beef against South African exporters of all other agricultural products – a clever negotiating tactic.

to the rules we have an equal chance of reaching a result that favours South Africans as a whole, even though it may not favour all interest groups.

fw: SA has also been struggling to retain access to the EU market for its citrus exports (due to differences regarding Citrus Black Spot). What happens if SA loses its footing in the lucrative US and Western European markets?

NV: Ironically, these incidents can be interpreted as the result of SA's success in agricultural exports in general and our increasing presence in world trade in agricultural products. For example, we are now either the biggest or second-biggest southern-hemisphere exporter of virtually all fruit types that we produce, which gives us far more market power than in the past. At the same time, SA's imports of all agricultural products increased sixfold from 2000.

When Agoa was first signed into law by the US, SA exported R800m worth of agricultural products to the USA, hardly worth worrying about, while our imports from the US actually declined after 2011, from R3bn to R2.8bn in 2014. So SA's net imports of agricultural goods from the US (exports minus imports) increased up to 2011, but then started to decline – and it is these kinds of changes that draw the attention of policymakers. ■

editorial@finweek.co.za

Images by Gallo Images/iStock Images

By David McKay

The truth about the commodity sector hurts

Was the commodity super-cycle from 2000 to 2010 actually just a 'price upswing' as Investec Securities suggests?

Look as one may, but it's hard to find many glimmers of hope in the commodity market and therefore few pointers for investors. The best advice is to steer clear of a sector still in trauma, especially as the tone of many the sell-side analyst notes is of the post-mortem variety.

For instance, picking through the flotsam and jetsam of what is a major commodity crash, Investec Securities ponders the view that the so-called super-cycle from 2000 to 2010 was in fact "... a price upswing" driven by China's industrialisation.

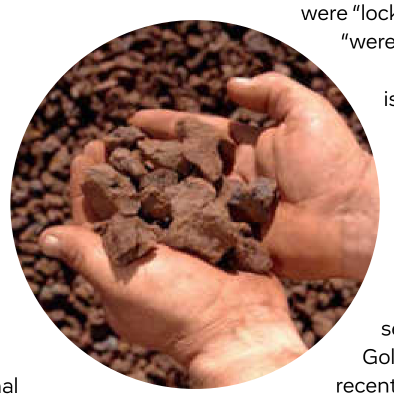
It may prove to be in hindsight "... part of a normal cycle albeit one that happened to be of unusual magnitude and duration", the bank says. "The threat now facing the industry is a prolonged down-cycle caused by falling industry costs and a prolonged period of oversupply, resulting in sustained weakness in commodity prices."

The weakness has already been fairly sustained.

According to Barclays Capital, the past five years have been the cruellest on mining stocks since a slump in metal prices in 1966, nearly half a century ago. "Looking forward, it is hard to see what might pull the sector out of its tailspin," it muses. "A demand shock seems unlikely given the state of China's economy."

With things looking so grim, Barclays has downgraded its share earnings outlook for the world's top four mining companies by 28% on average with Anglo American the hardest hit at -46% followed by Rio Tinto (-32%), BHP Billiton (-31%) and Glencore up slightly by 2%.

The uppishness on Glencore is partly related to its response to investor fears that with $30bn in net debt, the company was over-leveraged at a time when it was best to be less exposed. It has since announced plans to lower net debt by $10bn – a development that has seen positive responses from Deutsche Bank, which says that the company's debt reduction plans were "locked in" and operations "were humming".



"The threat now facing the industry is a prolonged down-cycle caused by falling industry costs and a prolonged period of oversupply."

One of the factors Anglo is likely to be hardest hit by is the poor outlook for iron ore, although it's suffering on this score is a shared one: according to Barclays, the iron ore sector is responsible for 63% of the entire mining sector's pre-tax earnings.

Goldman Sachs said in a recent report that Kumba Iron Ore, in which Anglo American has a 70% stake, could face a further battering even though the stock is some 76% weaker year-to-date (at the time of writing). This is owing to continued operational issues at Kumba's Sishen iron ore mine, which will only deliver 31m tons in 2015 due to a lack of available high-quality ore. Kumba is also expected to report higher costs as waste tonnage increases to 230m tons from 200m tons.

Added to that, the world's iron ore producers are continually improving their cost controls, which puts pressure on the higher cost producers, especially as demand declines in China. The outcome is another year of cash burn for Kumba.

"Cash burn will lead to pressure on the balance sheet," says Goldman Sachs. "We believe that Kumba has limited levers left to combat falling iron ore prices, and any restructuring would likely include lay-offs, which are historically challenging in SA."

Razor blades, anyone? ■

editorial@finweek.co.za

By David McKay

Can the new CEO save the day?

Harmony Gold has fallen on hard times and is struggling to inspire confidence; a quarter drop in its share price mid-year certainly doesn't help its cause. Peter Steenkamp will be taking the reins from outgoing CEO Graham Briggs. Is he up to the challenge of fixing Harmony?

Graham Briggs, the outgoing CEO of Harmony Gold, tackled the question of who is to succeed him by saying it was probably tough for the company's board to find someone "crazy enough" to accept the post.

Enter **Peter Steenkamp,** formerly Harmony's chief operating officer before leaving for other pastures. Ironically, one of Steenkamp's first tasks at Harmony will be to find a new COO following the departure of Alwyn Pretorius, who quit the firm only two months after Briggs announced his retirement plans in June.

The mid-year period was a tough time for Harmony because it had seen its share price fall a quarter in a month amid painful restructuring at the Doornkop and Kusasalethu mines, as well as project curtailments and impairments the previous year at the Phakisa and Target mines.

Briggs told *finweek* in an interview, however, that that period of restructuring was a turning point, and Harmony was now able to survive the slide in the dollar gold price; a move no doubt aided by improved US job figures that will give the Federal Reserve the confidence to raise rates.

"The restructuring has taken a lot of management time, but we are over that – barring anything changing dramatically [due to] external factors," said Briggs. "We've also gone through wage negotiations in a positive manner."

UBS analyst, Kane Slutzkin, said Harmony's recent September quarter results suggested "a potential inflection point" for the share in which Harmony's management could translate stronger rand prices for gold of over R500 000/kg into improved cash flow.

In the main, however, the view from analysts was more cautious. "Our initial read is that this business remains in trouble," said Richard Hart of Arqaam Capital. "While weakness of the rand may assist in containing US dollar cost inflation, it is wreaking havoc on the balance sheet."

The company produced free cash from last quarter's outflow but it drew down R300m of a Nedbank revolving credit facility following a drawdown of a dollar-denominated revolver in the previous quarter, which translated into R541m in debt. "This company is presently unable to fund its entire capital expenditure bill from operating cash flows and will continue to require the assistance of its debt facilities," said Hart.

That's not the opinion of Briggs, however. He told *finweek* Harmony could zap its R2.5bn debt pile in two years, now that the restructuring was finished.

He also disagreed with a note from Goldman Sachs, which suggested Harmony had underinvested in its assets. "We haven't been shy on capex," he said. "We haven't been starving our operations."

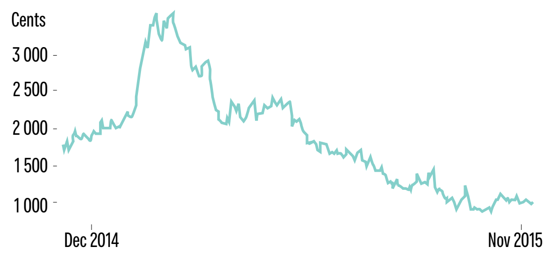
The plan now is that in knocking out debt, the company will be in a position to fund Golpu, a copper and gold prospect in Papua New Guinea it shares equally with Aussie gold miner Newcrest Mining.

In a sense, Golpu is Harmony's purpose with the SA gold mines providing the headroom to finance it. "If you go back five years we have spent R2bn to R2.2bn on Golpu, which has come out of SA-generated cash. We get criticised for not paying dividends, but Golpu is very important for the company," Briggs said.

A feasibility study on the first phase of the mine

"Harmony's mines are old and have been under-invested ... to make the mines profitable will require significant investment which we believe the gold price and Harmony's balance sheet weakness do not allow."

HARMONY GOLD MINING COMPANY LIMITED



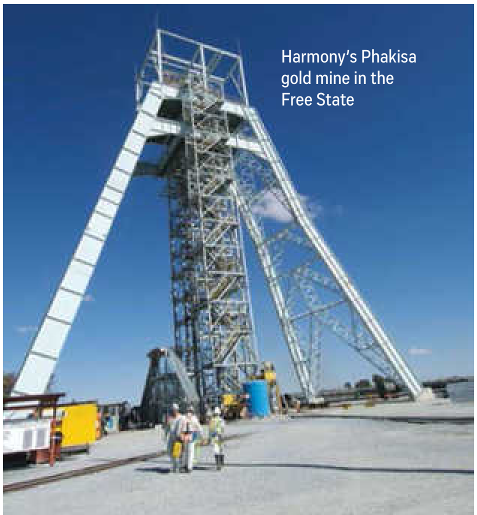
SOURCE: Bloomberg.com

Graham Briggs
Outgoing CEO of Harmony Gold

Peter Steenkamp
Incoming CEO of Harmony Gold

52-week range:	R8.10 - R38.50
Price/earnings ratio:	-
1-year total return:	-43%
Market capitalisation:	R4.24bn
Earnings per share:	-R2.50
Dividend yield:	-
Average volume over 30 days:	967 003

SOURCE: Bloomberg.com



Harmony's Phakisa gold mine in the Free State

Image by www.harmony.co.za

detailing production and costs is due for December with its official unveiling most likely one of the first things that Steenkamp will do in January. Based on previous studies, Harmony's share of Golpu's capital cost has been put at $800m. This means it must still stump up $600m after the $200m the company has already put in.

But can the SA mines support the balance sheet so long? No, believes Goldman Sachs, which has been withering of Harmony's performance in the past. "Despite the strong results, we remain bearish on the stock," the bank said.

"Harmony's mines are old and have been underinvested. In our view, to make the mines profitable will require significant investment, which we believe the gold price and Harmony's balance sheet weakness do not allow," it said.

In fact, net debt would rise from R2.2bn to R3.8bn by the end of Harmony's 2018 financial year. "As such, we do not see a deleveraging, hence we think that Golpu project remains questionable," it added.

"Harmony announced a number of restructuring measures over the past year. We see limited scope for further restructuring and believe that any restructuring would need to be accompanied by reducing staff costs which is a challenge in South Africa," said Goldman Sachs.

If this view is borne out over time, one wonders whether it would have made better sense for Harmony to be conjoined with another gold producer along the lines of the big bang consolidation voiced by Sibanye Gold CEO, Neal Froneman.

In fact, there was speculation several months ago that Harmony's major shareholder, African Rainbow Minerals (ARM), had turned down an offer for its shares in Harmony from Sibanye – scuttlebutt that Briggs said he could not support. "It didn't come that close," he said. "You always have to look at these things as part of the job, but we did not have a discloseable offer on the table," he added.

Over now to Steenkamp.

Formerly of Pamodzi Gold, the company that attempted to breathe new life into the East Rand and Orkney gold mines with disastrous results (although not directly of Steenkamp's making), Steenkamp is faced with executing Briggs's Brave New World for Harmony.

"He has more than 30 years' experience in the mining industry and *should* lead Harmony to greater heights," said ARM chair Patrice Motsepe, notably using the modal verb – a reflection perhaps of doubts in Harmony that its critics share. ■

editorial@finweek.co.za

By David McKay

Gold still losing its lustre

AngloGold Ashanti's September quarter figures demonstrate amply why a year ago the group attempted – but failed – to hive off its SA assets into a separate company that would be diversified by investment into other commodities.

That's because roughly 75% of cash flow in the company was generated by AngloGold's international assets, yet the performance of the SA mines was so poor that the company burnt $56m in cash; that and the costs associated with liquidating a $773m bond early.

Srinivasan Venkatakrishnan, CEO of AngloGold, must have recognised in 2014 that as standalone entities, the SA assets would be volatile in performance and need the diversifying effects of other commodity exposure. It's a strategy being followed by Sibanye Gold, which has bought platinum, and is considering the sense of buying coal assets, because the dividend outlook is so much better than just relying on gold.

Srinivasan Venkatakrishnan
CEO of AngloGold

Roughly 75% of cash flow in the company was generated by AngloGold's international assets, yet the performance of the SA mines was so poor that the company burnt $56m in cash.

It seems both Sibanye and AngloGold recognise – as does Harmony – that SA gold mines don't cut it on their own now: the assets are old and more difficult to mine. Furthermore, labour costs are now high in SA, while restructuring is very difficult to get through government and organised labour.

Unfortunately for AngloGold, the demerger was turned down, so for the time being, the group is faced with having to tame its local assets for the benefit of the whole group. This could prove problematic.

"Our view is that SA does remain a problem and a turnaround needs to be demonstrated in order to drive a positive rerating of the stock," said Andrew Byrne, a precious metals analyst for Barclays Capital.

Generally speaking, however, AngloGold has largely addressed its net debt situation and is positioned to produce positive cash flow provided its SA assets can be optimised. The stock is trading at a 50% discount to its peers – according to Barclays Capital – which should make it a buy depending on how you view the exposure to SA mining. ■

editorial@finweek.co.za

Geita, in northwestern Tanzania, is the largest single gold mining operation within the AngloGold group.

Image: www.anglogoldashanti.com

market place

Don't miss:

The *finweek Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about the next issue's top stories.

FUND IN FOCUS: FOORD FLEXIBLE FUND OF FUNDS

By Jaco Visser

Global exposure pays off

The Foord Flexible Fund of Funds aims to provide investors with a real return of 5%, or five percentage points above consumer price inflation, after subtracting fees. The fund has a large exposure to international assets, which make up close to 70% of the fund.

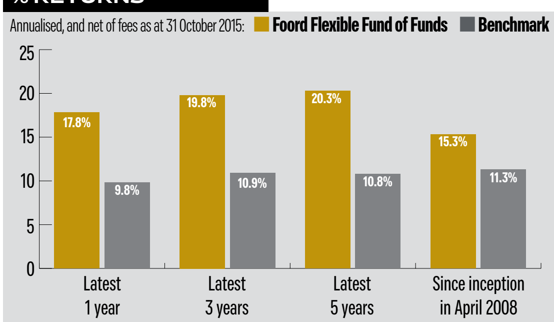
FUND INFORMATION

Benchmark:	**CPI + 5%**
Minimum lump sum/ subsequent investment:	**R50 000 lump sum or R1 000/month**
Fund manager:	**Dave Foord**
Total Expense Ratio (TER):	**1.9%**
Fund size:	**R8.7bn**
Contact details:	**unittrusts@foord.co.za or 021 531 5085**

PORTFOLIO COMPOSITION

as at 31 October 2015:		% of fund
1	Qihoo 360 Technology Co (USA)	2.9%
2	SABMiller (RSA)	2.9%
3	Invesco (USA)	2.7%
4	Newgold (RSA)	2.5%
5	Aspen (RSA)	2.5%
6	Roche (Switzerland)	2.4%
7	PICC Property & Casualty (Hong Kong)	2.4%
8	China Construction Bank (Hong Kong)	2.3%
9	Alphabet Inc (USA)	2.1%
10	FMC Corp (USA)	2%
TOTAL:		**24.7%**

% RETURNS



Fund manager insights

The Foord Flexible Fund of Funds' 12-month performance can be attributed to its large exposure to international assets, according to William Fraser, a fund manager at Foord Asset Management. "The combination of some good stock selection in the global portfolios, together with the substantial depreciation of the currency, has contributed significantly to the total returns during the past 12 months," says Fraser.

The top equity pick in the fund is Qihoo 360 Technology with a weighting of 2.9%, according to the fund's latest minimum disclosure document. The Chinese economy is undergoing a gradual shift away from the secondary economy, namely manufacturing and fixed-asset investment, towards the consumption of goods and services consumption, explains Fraser. The country's services economy is larger than the secondary economy and is growing at a much faster pace, in excess of 8% per year.

The top equity pick in the fund is Qihoo 360 Technology with a weighting of

2.9%

"This is a long-term theme, and hence companies that sell products and services into this faster growing sector of the economy will benefit disproportionately, resulting in superior earnings growth," Fraser says.

Qihoo is only one of the companies that stands to benefit from the growth in the services sector in China, he explains. "It is one of China's largest technology platforms with leading market share in internet security, search, browser, mobile app and mobile gaming," he says.

"It is our belief that investment risk in South Africa has increased materially in the last year, given the increase in the market multiple (price-to-earnings ratio), while the outlook for earnings continues to deteriorate."

Fraser doesn't find a "large number of opportunities" in the domestic market, with future returns in excess of five percentage points above consumer price inflation.

Why *finweek* would consider adding it

The fund has a solid track record of outperforming its steep benchmark of 5% real returns over a number of years.

The cautious approach to local, and expensive, equities is another factor boosting the fund's prudential investment strategy. Local stocks are priced at multi-year high P/Es, begging the question of when a sharp downward correction will occur. Looking past China's manufacturing woes to its huge consumer market, and the future potential returns from this economic sector are alluring.

The large offshore exposure of the fund makes it a good rand hedge in times of currency weakness. ■

editorial@finweek.co.za

YORK TIMBER

BUY SELL HOLD

By Simon Brown

Don't venture into the woods

For the June 2015 year-end York has a stated tangible net asset value (TNAV) of 735c while the share is trading at around 250c – a massive discount that has attracted a lot of interest.

But two issues must first be considered for the TNAV. How is it determined and will the gap ever close?

In the case of York, most of this TNAV is made up of what it calls biological assets – its trees. It discloses very clearly how it gets to the valuations for the trees.

Gallo Images/ iStock Images

But some tweaks to the calculations can adjust TNAV either way. For example: York uses a cost of equity of 15.28%, yet its long-term return of equity is under 10%. This is a serious mismatch, which suggests the trees (and hence TNAV) are overvalued. The second issue: will this discount to TNAV ever close? The evidence is that it never has and I can't see what would trigger it closing and pushing the stock higher. With these two uncertainties I would not invest. ■

Last trade ideas

HOLD Calgro M3

SELL MTN

BUY Balwin

BUY Rolfes

VODACOM GROUP

BUY SELL HOLD

By Moxima Gama

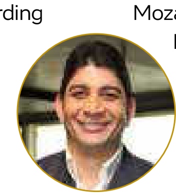
A good call

Price wars and subscriber competition are challenges of the past for mobile operators in South Africa. With prices plateauing, the quality, availability and speed of network has become a more pressing matter. According to MyBroadband, Vodacom currently has the best voice and data network in SA, based on network coverage, call quality and mobile data network performance.

The group reported strong growth in data revenue, which was up 33.5% in the six months to end September, with data users increasing to 28.3m across the group.

In SA, LTE/4G coverage has increased from 32.2% to 46.8% of the country, CEO Shameel Joosub said at the release of the group's results on 9 November.

"Our LTE/4G customers in SA, now approaching 2m, consume almost three times more data as compared with 3G customers," Joosub said. Overall, Vodacom managed to increase group revenue by 6.4% to R39.96bn in the interim period, while headline earnings per share increased 6% to 440c. Outside SA, Vodacom has operations in Lesotho, Mozambique, Tanzania and the Democratic Republic of Congo.



Shameel Joosub
CEO of Vodacom Group

Vodacom is focused on investing more into fibre and other new growth areas in the second half of the financial year. Data will be a big focus area, with only 66% of its monthly active South African customers currently using data, Joosub said.

The group also sees opportunity to grow its market share in the fixed services business. Its proposed purchase of Neotel, which is awaiting approval from the Competition Tribunal, will enhance its ability to provide fixed-line services, broadband and fibre to customers in SA, he said.

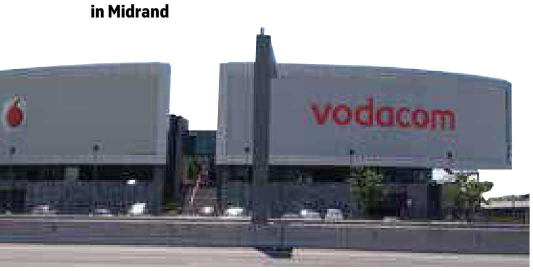
The company continues to outperform MTN this year - Vodacom shares are up 17.8% over the past year, compared with MTN's decline of 31.1%, according to INET BFA data. On a performance basis, investors' bets are placed on Vodacom.

Upside above 15 200c/share presents a good buying opportunity, which should extend the current uptrend to the 16 875c/share target in the near to short term (one month). The secondary target is situated at 18 155c/share. ■

editorial@finweek.co.za

Vodacom shares are up
17.8%
compared with MTN's decline of 31.1%, according to INET BFA data.

Vodacom Group headquarters in Midrand



Last trade ideas

BUY Massmart

SELL EOH Holdings

BUY Adapt IT Holdings

BUY Tsogo Sun Holdings

By Moxima Gama

CORONATION FUND MANAGERS

Skillfully navigating a rough patch

Things have been somewhat rocky for Coronation Fund Mangers recently, with its share price slipping almost 40% in the past 10 months. *finweek* considers what the company's fortunes look like over the coming months.

Founded in 1993 when 15 people walked out of Syfrets Managed Assets, Coronation is now a global asset management company offering a range of local and international products to institutional and individual investors. As at end September, it managed R610bn in client assets, up 3.7% from the year before.

The group, whose fortunes are closely tied to the returns of the market and the level of outperformance it generates on behalf of clients, saw revenue decline by 7% to R4.4bn in the year to end September as global growth deteriorated and investors withdrew funds from emerging-market equities and currencies, it said. International assets under management were up 11% to R141bn.

Diluted headline earnings per share were down 9.7% to 516c, while the dividend was cut by 9.7% to 516c. "Due to a decline in both market returns and the abnormally high level of performance fees generated in the prior financial year, revenue for the current period declined... This, in turn, led to a decline in diluted headline earnings compared with the record high earnings base achieved in the prior financial year," Coronation said. The group's share price is down 37% since the start of the year.

It warned that the recent levels of extreme market volatility are likely to persist, but that the long-term investment track records of all its key funds remained compelling despite the challenging environment.

While Coronation experienced reputational damage and saw some outflows of investor money following the collapse of African Bank Investments in the second half of 2014, on which it took a major bet and ended up with a 22% stake, it remains one of the top-performing fund managers in the country. It was ranked third for performance in the annual Alexander Forbes Global Large Fund Managers Watch for the five years to end September. Foord Asset Management was ranked top, followed by Investec Asset Management.

52-week range:	R64.90 - R115.20
Price/earnings ratio:	13.37
1-year total return:	-26.30%
Market capitalisation:	R24.14bn
Earnings per share:	R5.16
Dividend yield:	7.48%
Average volume over 30 days:	1 494 498

SOURCE: Bloomberg.com

Over the next year, investors will also be paying attention to the change in Coronation's fee structures and benchmarks. From 1 October, the group changed the fee structures and benchmarks on a number of its funds, scrapping performance fees and shifting to fixed fees. Fixed fees are easier to compare, and clients know what they are going to pay, Coronation explained at the time. In addition, Coronation has also changed its benchmark to the FTSE/JSE Capped All-Share Index, which caps companies' exposure in the index to a maximum of 10%. For the year to 1 October 2016, the cheapest of the "old" or "new" fee structures will be implemented.

CORONATION FUND MANAGERS LTD (WEEKLY CHART)

SOURCE: MetaStock Pro (Reuters)

What next?

Possible scenario: Coronation has breached the support trendline of its bear trend, after retaining key support at 6 485c/share, indicating that buying momentum is on the rise. The weekly relative strength index (RSI) has abandoned its long-term bear trend, which is a very bullish move. If support holds firmly above 6 700c/share, a recovery through 7 865c/share should be underway. Another good buying opportunity would be presented above 7 520c/share, with potential gains to the 9 500c/share resistance level in the short term (one to six months).

Alternative scenario: A reversal below 6 500c/share could trigger panic selling to support at 5 530c/share. Next support would be at 4 620c/share. ■

editorial@finweek.co.za

Note: In the Killer Trade in the 21 May issue I called a sell on Coronation below 8 825c/share, with the targeted bottom at 6 150c/share. Coronation troughed at 6 500c/share.

Moxima Gama has been rated as one of the top five technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

KUMBA IRON ORE

Kumba's Kolomela iron ore mine in the Northern Cape

Incredibly cheap

We wrote last week that if Kumba could keep its headline earnings per share (HEPS) flat for the second half of the year, the stock would be on a price-to-earnings multiple (P/E) of around 4 times. Well, an early trading update – it is early for the year ending December – shows that the second half will actually be better than the first half, putting the stock on a P/E of some 2 times. On every level this is crazy cheap unless one thinks the company may go bust. As I have written before, I don't see Kumba entering bankruptcy but I still can't buy it – I first want to see some real signs of a recovery. Sure, I will miss the first part of the eventual move higher, but I expect the tough times aren't over for local mining companies.

ARCELORMITTAL SA

Scrambling for capital

ArcelorMittal South Africa (Amsa) joins Lonmin in that it is also planning a rights issue that is larger than its current market cap – Amsa plans a rights issue of \$323m, versus a market cap of around \$225.8m; Lonmin announced a rights issue of \$407m compared with a market cap of \$161m – showing just how close to the edge both are. In its results, Amsa also commented on the new supply terms for iron ore from Kumba. Going forward, the net deal will see Amsa saving some R450m; great for Amsa but not so good for Kumba.

TONGAAT HULETT

Property saves the day

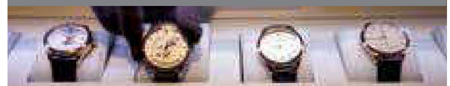
The company's update shows very tough conditions for sugar-growing as a result of a drought and weaker sugar prices. But property is keeping Tongaat going with HEPS expected to be 13.6% lower while the property operating profit was up almost a third. This property division is a nice cushion for the business as it generated almost half the operating profit for the period. I would like Tongaat to spin off the property separately but, as much as I think the market would like that, I can't see the company ever doing it. Tongaat benefits from the property division as it smooths out the sugar section's volatility.

But property is keeping Tongaat going with headline earnings per share expected to be

13.6%

lower while the property operating profit was up almost a third.

RICHEMONT



Jaeger-LeCoultre watch

Watching that margin

As a Richemont* shareholder, I thought its results for the six months ending September were good. The only real issue is reducing margins, but when your gross margin was 66%, a drop of one percentage point to 65% hardly seems bad enough to push the share down over 6% on the day. Sure, the stock had been trading at all-time highs, but I remain a happy shareholder. While we'll likely see more margin shrinkage and continued concerns around the Chinese consumer, as a long-term holder, I am not concerned.

MONTAUK HOLDINGS

Gas prices a concern

When HCI unbundled Montauk to its shareholders I was not impressed. It seemed like a bad asset that HCI was essentially ditching onto shareholders. This is often the case with shares that are being unbundled – they can't be sold so the company just passes the buck.

But Montauk's results show that the company may be worth a closer look. It made a modest profit although the HEPS was negative due to accounting processes, but the real kicker is the comment that "performance is heavily influenced by natural gas pricing". The concern here is simple: while a natural gas operation in the US is a very different investment for South African investors, what is the longer-term future for natural gas prices in the US? A lot of natural gas comes from fracking operations and that adds an important consideration. The natural gas supply from fracking can be turned on or off very easily and a lot more supply can enter the market if natural gas prices rise. This could well keep a lid on prices of natural gas and hence on future profits from Montauk. So this is an interesting investment option, but not one I am considering. ■

editorial@finweek.co.za

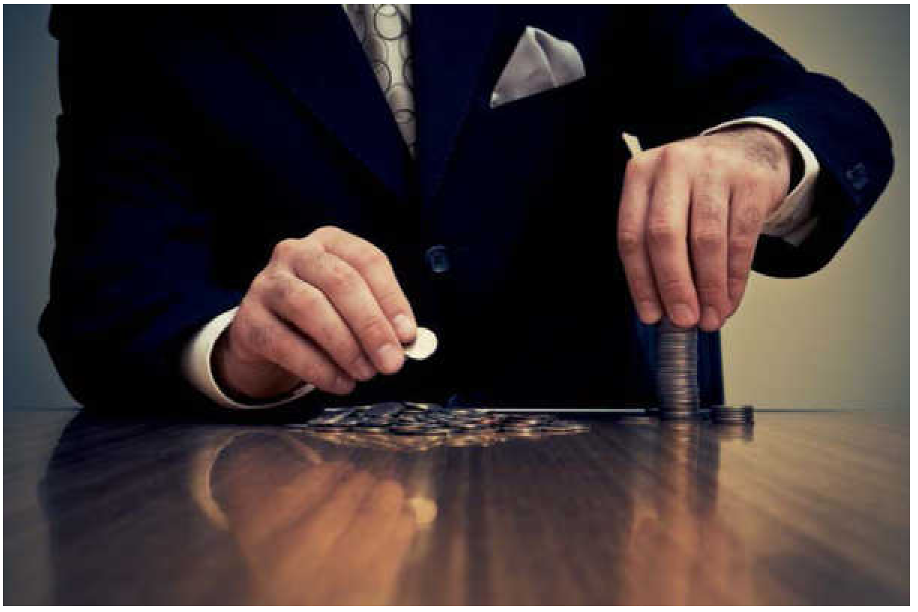
*The writer owns shares in Richemont.

By Simon Brown

COMPANY PROFITS

Managing operational leverage

If a company is in a position where profits increase at a faster pace than revenue, it is essential that it navigates ups and downs wisely in order to reap the benefits of operational leverage.



Gallo Images/iStock

One of the key issues I look for when investing is operational leverage. Not the sort of leverage a trader would get from using derivatives rather than buying the actual share – instead this is when profits increase at a faster pace than revenue.

Revenue growth is the top-line number while profit (headline earnings per share – HEPS) growth is the bottom-line number. Operational leverage, for example, would be revenue growing at 15% while HEPS grows at say 25%.

The idea is that costs are largely fixed while revenue has flexibility; and an increase in revenue does not lead to similar increases in costs.

Industry examples

A great example would be a hotel business. There is the base cost of owning and operating the hotel and, whether there are 100 or 120 guests, the base cost remains largely the same; the number of cleaners, receptionists, chefs and the like remains the same. Sure there is a small extra cost per guest, such as soap for the bathroom, but other than those small extra costs per guest pretty much all the extra revenue from those extra 20 paying guests goes straight to profit (the bottom line). So after the hotel reaches the break-even level of occupancy, each extra guest adds significantly to the bottom line.

Another example would be mining, where costs are largely fixed. And in the case of local mines costs are in rands. So, any increase in the price of the commodity being mined or any weakness in the rand exchange rate adds to revenue without changing costs and hence goes almost directly to profit.

The challenge is of course keeping a lid on cost increases, while the bigger issue in mining is that the company has no control over what price it sells the commodity at. Mining companies are price takers and must accept the price the market gives their commodity.

Going negative

There is of course also negative operational leverage: when revenue is decreasing for some reason. So, going back to the hotel example, now there are only 80 guests. Again, costs are largely fixed and hardly reduce, even though there are fewer guests. So now revenue is down, but profits move lower at an even faster rate.

This negative operational leverage means that companies with operational leverage will have more volatile earnings. In the good times, earnings will increase at an accelerated pace; tough times will really hurt.

This negative operational leverage means that companies with operational leverage will have more volatile earnings. In the good times, earnings will increase at an accelerated pace; tough times will really hurt.

Thus, companies with operational leverage should also be able to survive during the tough times and then use the good times to expand the business using the excess profits.

Working it

Surviving tough times really is a matter of having a mature company with a decent spread of assets and not too much debt. Debt is an important consideration, as the company needs to be able to continue to pay it off when times get tough. So any expansion during good times needs to be done cautiously. So, to use the hotel example, the ideal scenario would be one with a number of hotels in different regions around the country (or, even better, globally), and a balance sheet that is not strained by the weight of debt.

There are of course companies with very little operational leverage. An example would be a construction or manufacturing business. With this sort of business every rand earned in revenue usually has a corresponding number of costs. So revenue growth and profits will move largely in tandem with each other. ■

editorial@finweek.co.za

Simon Brown has been interested in the stock market since his school days in the 1980s and bought his first share a week before the stock market crash of 1987. He started his first trading website in 2000. He has been investing and trading, while also teaching and writing about the subject of markets, ever since.

By Shaun Murison

ADVTECH GROUP

School business still driving growth

A combination of acquisitions, a wider range of courses and a boost in student numbers from the rest of the continent is paying off for Advtech.

Listed in the specialised consumer services sector on the JSE, the Advtech Group is one of the largest diversified education and placement groups in South Africa.

The business operates under three primary divisions, namely: schools, tertiary and resourcing, making up 53.4%, 38.5% and 8.1% of group revenue respectively (first half of 2015).

A look at the various divisions

The school business realises an operating margin of 19% and remains the largest contributor to group's earnings. Advtech has increased student capacity (largely through acquisition) by 75% from 2014 through to 2015, while still managing to maintain around 70% occupancy.

Advtech's aim is to further grow capacity of existing sites by about 46% into the year 2020. The most recent developments relating to Advtech's accelerated growth strategy is the acquisition of Summit College for R82m. The deal appears a good one as Summit College has extensive grounds, measuring 42 hectares, which are zoned for education. Part of this has been developed into a school with a capacity for 1 000 students and enrolments of 590. The school offers boarding on the property in the Kyalami area and caters for all phases from Grade 000 to Grade 12.

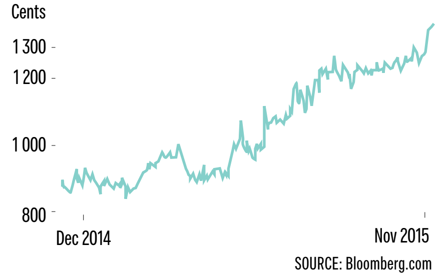
The tertiary division boasts a 51% increase in earnings before interest and tax (EBIT) from the first half of 2014 to the first half of 2015. This division has also managed to improve operating margins from 10% to 13% over the same comparative period. The turnaround in this division has been driven by growing participation from students in other African countries as well as an increased range of courses being made available.

The resourcing division has proven robust in a competitive market environment, with operating margins having doubled from the first half of 2014 to the first half of 2015.

General overview

The group now has a market capitalisation of around R6bn, a return on average equity in the region of 18.5%, a historical dividend yield of 2% and trades on a price-to-earnings ratio (P/E) of 27 times. While a P/E of 27 might appear a hefty premium in an already expensive market (the JSE All Share Index has P/E of 23) the company's most recent set of interim results shows the share is achieving significant growth through both organic and acquisitive channels having achieved a 33% increase in revenue, a 73% jump in operating profit and a 29% increase in profit after tax.

ADVTECH LIMITED



SOURCE: Bloomberg.com

52-week range:	R8.45 - R13.88
Price/earnings ratio:	29.29
1-year total return:	+60.50%
Market capitalisation:	R6.2bn
Earnings per share:	R0.47
Dividend yield:	2.01%
Average volume over 30 days:	68 202

SOURCE: Bloomberg.com

Advtech has increased student capacity (largely through acquisition) by **75%** from 2014 through to 2015, while still managing to maintain around 70% occupancy.

Advtech in numbers*:

Schools: 24 000 students at 76 schools.

Tertiary 31 000 (25 000 full-time) students at 20 campuses.

± 60% of group revenue from recurring student enrolment.

53% of revenue from schools division.

*as at 30 June 2015

The group is highly geared with leverage now in excess of four times earnings before interest, tax, depreciation and amortisation (EBITDA). Advtech is however raising R850m through a renounceable rights offer. The funds raised will be used to reduce (to some extent) and restructure current indebtedness, fund capital projects and planned acquisitions as well as ensure that Advtech is adequately positioned to act on growth opportunities available.

In summary, the Advtech Group operates in a defensive sector and is achieving strong earnings growth on improving operating margins in a difficult economic climate. The company also provides a decent dividend yield at around 2% per year historically. While the recent takeover attempt by sector companion Curro Holdings has failed, speculation does remain that Advtech could still be an acquisition target. ■

editorial@finweek.co.za

Shaun Murison is a market analyst at IG.

By Schalk Louw

PRICING RISK

'Danger pay' in shares

As an investor, you have to be aware of the risk you are taking when investing in a particular stock – is the potential reward worth it? *finweek* takes a closer look at the concept of risk premiums and how to calculate them.

Soldiers are most familiar with the term 'danger pay'. It refers to that something extra they receive in addition to their monthly salaries, for being willing to do service in very dangerous areas. Although this payment may seem very attractive, it is also important to remember that the soldier has to be aware of the accompanying dangers. They have to be willing to risk losing their lives for a few thousand rand extra per month.

In the investment world, we also understand the concept of danger pay, or risk premium, and although you don't necessarily run the risk of losing your life, it remains something that an investor should be aware of and that they should always consider when it comes to compiling an investment portfolio.

What is a risk premium?

A risk premium is the percentage by which you need your investment, such as shares, to grow more by than risk-free investments such as a money-market investment, in order to make it worthwhile to invest in more dangerous areas. Many reports on how to calculate risk premiums have been released over the years and this has resulted in some overly technical methods. I find that the easiest way to calculate this percentage is to look at the difference in annual returns between shares and money-market rates respectively.

With money-market rates currently also trading at around 6%, you would need more than **14%** growth in shares per year to make this higher-risk investment worthwhile.

Worthwhile investments

Over the past 15 years, investors have enjoyed 7.6% more growth in shares (excluding dividends and before tax) than in the risk-free money market. Investors, therefore, should like to see 8% more growth in shares than in risk-free investments in order to make shares a worthwhile investment. The graph clearly shows that investors have enjoyed a very investment-friendly environment since the great correction of 2008/09, with returns that exceeded this 8% average quite comfortably up to the end of 2014.

But what do we do now? If investors had any certainty that shares would continue to grow by more than money-market rates, this question would have an easy answer.

Unfortunately, no one is in a position to make such predictions, so the best aid to our disposal is to take a look at the general forecasts on company profits made by analysts in South Africa.

Bloomberg's consensus forecasts give us a pretty good indication of the expected growth in terms of shares. By looking at its individual forecasts for the Top40 shares, one can see that it expects a mere 6.1% average growth over the next 12 months.

With money-market rates currently also trading at around 6%, you would need more than 14% growth in shares per year to make this higher-risk investment worthwhile. So if these analysts are correct, shares (before tax) should deliver exactly the same percentage return as money-market investments over the next 12 months.

Gallo Images/iStock

The four companies that these analysts felt most confident about exceeding the 14% growth mark were BHP Billiton, Naspers, Nedbank and Shoprite.

A critical look at the Top40

Now another question: Can the price-to-earnings ratio (P/E) of nearly 21 times on the FTSE/JSE Top40 Index be justified if it may not even cover your danger pay? This means that investors are now taking higher risks to earn possible lower returns.

Out of these 40 forecasts, analysts only expect a handful of companies to grow by more than 14% price-wise over the next year. By excluding MTN, based on the massive uncertainty surrounding the Nigerian fine, along with a number of resource companies, I found that the four companies that these analysts felt most confident about exceeding the 14% growth mark were BHP Billiton, Naspers*, Nedbank and Shoprite.

I do, however, urge investors to exercise extreme caution in current market conditions, especially when it comes to shares, by reiterating the fact that their expected danger pay may be on the lower side for now. ■

editorial@finweek.co.za

**finweek is a publication of Media24, which is a subsidiary of Naspers.*

FTSE/JSE ALL-SHARE INDEX % MINUS MONEY MARKET %

SOURCE: INET BFA

DIRECTORS DEALINGS

COMPANY	DIRECTOR	TRANS. DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
A V I	K Phillips	6 November	Exercise Options	18,246	4549	830,010	9 November
A V I	K Phillips	6 November	Sell	18,246	8910	1,625,718	9 November
ADVTECH	A Isaakidis	3 November	Exercise Options	40,000	664	265,600	6 November
ATTACQ	PH Faure	3 November	Sell	140,000	2195	3,073,000	6 November
CITY LODGE	C Ross	2 November	Sell	300	15050	45,150	5 November
CITYLODGE	C Ross	3 November	Sell	12,959	15095	1,956,161	5 November
CITYLODGE	C Ross	4 November	Sell	20	15402	3,080	5 November
DISTELL	PF Carolin	5 November	Sell	8,364	18000	1,505,520	6 November
DISTELL	VC de Vries	5 November	Sell	2,179	17900	390,041	6 November
EOH	JW King	4 November	Purchase	6,000	14310	858,600	5 November
EOH	JW King	5 November	Purchase	3,000	14142	424,260	6 November
EOH	JW King	5 November	Sell	29,421	10694	3,146,281	6 November
FAMBRANDS	JL Halamandres	2 November	Sell	4,445	13466	598,563	7 November
FAMBRANDS	JL Halamandres	3 November	Sell	6,824	13489	920,489	7 November
FAMBRANDS	JL Halamandres	29 October	Sell	9,935	13425	1,333,773	6 November
FAMBRANDS	JL Halamandres	30 October	Sell	25,546	13468	3,440,535	6 November
FAMBRANDS	RM Kgosana	28 October	Purchase	1,999	13222	264,307	6 November
GOODERSON	AW Gooderson	3 November	Purchase	83,411	51	42,539	5 November
IMPERIAL	MV Moosa	3 November	Purchase	8,126	2100	170,646	4 November
IMPLATS	ZB Swanepoel	2 November	Purchase	10,000	3815	381,500	6 November
REBOSIS	SM Ngebulana	3 November	Sell	1,469,200	1185	17,410,020	7 November
REBOSIS	SM Ngebulana	4 November	Sell	2,500,000	1170	29,250,000	7 November
REMGRO	J Malherbe	3 November	Exercise Options	6,949	20362	1,414,955	5 November
REMGRO	J Malherbe	3 November	Sell	5,072	27835	1,411,791	5 November
SIBANYE	NJ Froneman	5 November	Exercise Options	216,658	2202	4,770,809	6 November
SIBANYE	NJ Froneman	5 November	Sell	85,000	2203	1,872,550	6 November
TASTE	DJ Crosson	2 November	Sell	129,578	5	6,478	5 November
TASTE	DJ Crosson	29 October	Sell	34,758	15	5,213	6 November
TASTE	DJ Crosson	29 October	Sell	100,000	13	13,000	6 November
TASTE	K Utian	28 October	Sell	20,472	14	2,866	6 November
TASTE	K Utian	28 October	Sell	42,028	15	6,304	6 November
TASTE	K Utian	30 October	Sell	73,437	3	2,203	6 November
TASTE	K Utian	30 October	Sell	134,523	4	5,380	6 November
TASTE	K Utian	30 October	Sell	34,063	5	1,703	6 November
TEXTON	JA Legh	5 November	Purchase	190,000	930	1,767,000	5 November
TEXTON	JA Legh	5 November	Purchase	135,000	930	1,255,500	5 November
TEXTON	MJ Van Heerden	4 November	Purchase	200,000	930	1,860,000	5 November
WOOLIES	J McRae	26 August	Exercise Options	7,835	9670	757,644	5 November
WOOLIES	D Thomas	26 August	Exercise Options	78,015	9670	7,544,050	5 November

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST	650	172
BSi Steel	53	17.78
Huge	420	16.67
Bowcalf	1060	15.22
Stratcorp	10	11.11
Sabvest -N-	3400	9.68
WORST		
Lonmin	217	-56.43
Beige	1	-50
Cenrand	116	-44.23
Nutrition	2	-33.33
Buildmax	18	-28

INDICES

INDEX	WEEK VALUE	CHANGE* (%)
JSE ALL SHARE	52 565.50	-3.74
JSE FINANCIAL 15	16 287.05	-4.89
JSE INDUSTRIAL 25	72 212.35	-1.95
JSE SA LISTED PROPERTY	646.86	-1.65
JSE SA RESOURCES	16 384.34	-12.99
JSE TOP 40	47 201.93	-3.83
CAC 40	491 216	-0.73
DAXX	1 081 545	-1.24
FTSE 100	627 528	-2.15
HANG SENG	2 240 170	-2.83
NASDAQ COMPOSITE	508 324	-1.15
NIKKEI 225	1 967 126	3.93
S&P 500	208 172	-0.98

*Percentage reflects the week-on-week change.

P/E RANKING

SHARE	FORECAST
BASIL READ	3.87
KUMBA	3.9
AVENG	5.15
MERAFE	5.31
M&R HOLDINGS	5.49
LEWIS	6.3
RAUBEX	7.12
OCTODEC	7.78
EXXARO	7.99
ASTRAL	8.56

All data as at 11 November at 17:00. Supplied by INET BFA.

EPS RANKING

SHARE	F'CAST (C)	F'CAST AS %*
NASPERS-N-	4,367	2.06
BAT	4,139	5.09
SASOL	3,955	9.4
SABMILLER	2,952	3.4
CAPITEC	2,688	4.46
NEDBANK	2,265	10.65
BIDVEST	2,100	6.1
MONDI LTD	1,947	6.1
ASTRAL	1,900	12.03
TIGER BRANDS	1,770	5.39

*Forecast EPS as a percentage of current share price

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
DRDGOLD	37	15.2
REBOSIS	119	10.4
ANGLO AMERICAN	1058	10
MTN GROUP	1345	8.8
LEWIS	517	8.3
EMIRA	146	8.2
ACCPROP	54	8.1
OCTODEC	207	8.1
BHP BILLITON	1647	8.1
FORTRESSA	129	8

6 TOP FUND MANAGERS ON WHERE TO FIND VALUE WHEN INVESTING

By Jaco Visser

As the year draws to a close, many investors will be out meeting with their financial advisers to consider how their savings should be invested. *finweek* spoke to the managers of six of the country's top-performing balanced funds to gauge their views on South Africa's investable assets and get some tips on how to go about choosing a balanced fund.

The sluggish economy, expensive stock market, looming ratings downgrade and possible interest rate increase all combined make for a tough climate for investors seeking returns in SA.

Regardless, many retirees, or those saving up for their golden years, will continue to opt to put a large portion of their nest eggs in riskier unit trusts, hoping for higher returns. The riskiest unit trusts allowed by law are balanced funds.

Balanced-fund managers are walking a tightrope to beat inflation and deliver on a dual mandate to investors, namely that of growing the underlying capital while delivering inflation-beating returns. With the Pension Funds Act limiting balanced funds' offshore exposure to 25% of their underlying capital, almost all managers have allocated the maximum amount they are allowed to foreign assets.

The weakening rand has proved an unlikely tailwind for many balanced funds this year and acted as a kind of hedge.

The balanced-fund managers featured in this issue were good performers on Morningstar Research's list over the past 12 months.

Gallo/Getty Images

1. Rezco Managed Plus

FUND MANAGER: ROB SPANJAARD

One-year return (Fund/Inflation):

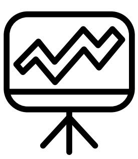
15.7%/4.6%

Three-year annualised return (Fund/Inflation):

18.6%/5.73%

Rob Spanjaard
Fund manager:
Rezco Managed Plus

Spanjaard's tip to investors is that they should find funds with a "good track record" and that have done well through the bear market, or when the stock market fell.



FINDING VALUE SHARES is proving difficult for Rob Spanjaard, a fund manager at Rezco Asset Management.

"Value is really hard to find," he says. "Shares are really expensive."

That is one of the reasons why the Rezco Managed Plus Fund is holding relatively more cash than its peers, according to him. Waiting for the right investment opportunities to come along would be rewarding, he says.

"There is value in patience," Spanjaard says. "Patience will be rewarded; not overpay."

The fund favours local financial and listed property stocks, which comprise almost half of its equity investments. The largest financial holding is medical insurer Discovery. The company's Chinese operations still boast value, Spanjaard says.

"There is good potential upside, which you are not really paying much for," according to him.

Another stock delivering value to the fund is multinational packaging giant Mondi plc. This company continues to produce "great numbers" and is well managed, according to Spanjaard.

In terms of international investment opportunities, the fund is positive on the US market and is starting to see value opportunities coming through from Europe – a market, which is slowly recovering from its sovereign debt crisis, Spanjaard says.

"We find European companies that have an export component benefit from the euro being a fairly weak currency," he explains.

Spanjaard's tip to investors who are contemplating rebalancing their portfolios and considering balanced funds is that they should find funds with a "good track record" and that have done well through the bear market, or when the stock market fell.

In addition, investors should think about diversifying their balanced funds so as to have different managers with different management styles, he says.

His tip for investors choosing a balanced fund is to be comfortable that the manager would ensure "good long-term returns".

Charles Booth
Fund manager:
Truffle Balanced Fund

2. Truffle Balanced Fund

FUND MANAGER: CHARLES BOOTH

One-year return (Fund/Inflation):

18.42%/4.6%

Three-year annualised return (Fund/Inflation):

18.72%/5.73%

TRUFFLE ASSET MANAGEMENT'S BALANCED FUND has a large exposure to local financial and property stocks, which it views as defensive in the current economic conditions, according to Charles Booth, one of the fund's managers.

"Value is not as easy to find as a year or two ago," he says. "We've got a lot of exposure to financials, which we think is defensive. That includes property."

The fund also has a large exposure to British American Tobacco, where there is a "very high degree of certainty" of earnings, Booth says.

His tip for investors choosing a balanced fund is to be comfortable that the manager would ensure "good long-term returns".

In the case of a balanced fund, the manager's objectives are more complicated than is the case with a straight equity fund, says Booth. On the one hand the objective is to generate a good return, while on the other, the manager tries to preserve capital, he explains.

3. Discovery Balanced Fund

FUND MANAGER: CHRIS FREUND

One-year return (Fund/Inflation):

12.88%/4.6%

Three-year annualised return (Fund/Inflation):

15.79%/5.73%

“We think Mondi has an extremely high-quality management team.”

INVESTMENT OPPORTUNITIES IN the local equity market are becoming less obvious, according to Chris Freund, a fund manager at Investec Asset Management who oversees the Discovery Balanced Fund.

The fund’s above-inflation returns for the past 12 months can be attributed to the very strong performance of the South African stocks held in its portfolio and by good returns on the foreign assets of the fund, according to Freund.

One of the stocks that boosted the fund was Steinhoff International, in which the fund had an overweight position, according to him. Another stock that boosted the fund’s returns was Mondi, which Freund says the fund has held for some time now.

“We think Mondi has an extremely high-quality management team,” he says.

The fund also had a bigger exposure to Naspers* than many other funds, according to Freund. He dismissed the idea that the stock was trading at too high a valuation and says that, when one analyses the company, it has to be split into its holding in Tencent and its other internet-based businesses as well as its DStv assets.

“If you split it up, in fact it was reasonably priced given how well Tencent was growing,” Freund says, adding that the fund likes the team that is managing Tencent. Naspers holds a 34% stake in Tencent, a Chinese internet company.

Going forward, Freund expects Naspers’s non-Tencent business units, including the electronic classified businesses, to do “very well” over the next couple of years.

He also reckons Vodacom would deliver good returns in due course as mobile phone tariffs in SA halt their slide and Cell C abandons its price pressures on competitors. Aside from easing competitor pressures, mobile data is likely to continue to grow at a very rapid pace over the next couple of years, according to Freund.

Freund’s tip for investors is that they should put their money into balanced funds. Over the next couple of years, the level of returns between different asset classes will probably not be that big, but he says that the big difference will come from the specific securities you own. He expects the average returns on balanced funds to be in the region of between 9% and 10%. He is, however, confident that they will be able to deliver even higher real returns for the Discovery Balanced fund.

*Finweek is a publication of Media24, which is a subsidiary of Naspers.

Chris Freund
Fund manager: Discovery Balanced Fund

He expects the average returns on balanced funds to be in the region of between

9%

and 10%. He is, however, confident that they will be able to deliver even higher real returns for the Discovery Balanced fund.

4. Autus BCI Balanced Fund

FUND MANAGER: NIËL HOUGAARD

One-year return (Fund/Inflation):

16.48%/ 4.6%

Three-year annualised return (Fund/Inflation):

18.56%/ 5.73%

AUTUS FUND MANAGERS' BALANCED FUND is seeing more value in stock picks offshore than locally, says Niël Hougaard, manager of the fund.

"It is no secret that our fund is underweight in equities," he says. "If you aim to add value to a portfolio, it comes down to which companies you pick to include in your fund."

In this regard, Hougaard still sees opportunities in certain local equities such as the PSG-linked companies, including Curro Holdings, Zeder Investments and Capitec. In addition, he is optimistic about the earnings potential of local companies with a foreign income stream, such as Steinhoff International and Naspers. Other opportunities, however, are limited due to the valuation of local stocks.

"The JSE's All Share Index trading at a price-to-earnings ratio of 26.8 worries me," Hougaard says. "Utilising your full offshore allocation is definitely a better option."

With regards to investors having to decide where to move their retirement money to, Hougaard's tip is to look for those funds that have yielded inflation-beating returns over the long term.

"The balanced fund must beat inflation and yield real growth in addition to protecting the investor's purchasing power over time," he says.

In addition, he says investors should keep abreast of the changes in the market and industry. Larger fund managers may lack the nimbleness associated with boutique-like outfits, which can move swiftly in and out of positions to optimise returns growth, he explains.

"It is, however, very important that the investor knows what is happening in the market," he adds.

Hougaard's tip is to look for those funds that have yielded inflation-beating returns over the long term.

Niël Hougaard
Fund manager: Autus BCI Balanced Fund

"The JSE's All-Share Index trading at a price-to-earnings ratio of 26.8 worries me," Hougaard says. "Utilising your full offshore allocation is definitely a better option."

What does regulation 28 mean?

The Pension Funds Act of 1956 empowers the minister of finance, Nhlanhla Nene, to limit the amount of money that a retirement fund may invest in certain types of assets. Hence, National Treasury set those parameters through regulation 28.

According to this regulation, a fund qualifying to invest retirement money can't invest more than 75% in equities, more than 25% in listed property, more than 25% offshore or more than 10% in hedge funds, for example.

5. Investec Managed Fund

FUND MANAGER: GAILE DANIEL

One-year return (Fund/Inflation):

14%/4.6%

Three-year annualised return (Fund/Inflation):

14.8%/5.73%

INVESTEC ASSET MANAGEMENT'S MANAGED FUND holds more than a quarter of its underlying assets in cash and money-market instruments as Gaile Daniel, manager of the fund, doesn't see many cheap stocks in the local market.

"It's a bearish statement to be in cash," she says, adding that cash has done better than banks. "I struggle to be bullish on bonds."

With the JSE trading at expensive valuations and the local economy buckling under multi-year low commodity prices, increasing numbers of companies are missing earnings targets.

A function of the weak economy is the banking sector, according to her. The fund is "light" in banks, which she describes as being a contrarian position to the rest of the market.

Gaile Daniel
Fund manager: Investec Managed Fund

She advises investors to consider investing in one or two good balanced funds, which is less risky than a tenant walking out from a residential property.

"The banks have done very well until the start of this year," she says. "The revisions [to earnings] are slightly negative."

In addition, a lot of the local stocks have exposure to the rest of Africa, Daniel says. With many resource-dependent emerging-market economies suffering the same fate as SA, growth prospects for these countries are uncertain.

"For a long time we've been concerned about the risk in Africa. The African markets are exceptionally priced out with a huge liquidity flow behind them," she says.

Following the unprecedented low interest-rate environment the world experienced following the recession in 2008/09, many investors in developed markets poured money into emerging markets, including the rest of Africa. Boosted by high commodity prices, record-setting economic growth lured offshore asset managers to the continent.

"It created this wall of money that mispriced everything," Daniel says. "That story is unwinding."

She advises investors to consider investing in one or two good balanced funds, which is less risky than buying property to rent out, where you run the risk of tenants defaulting on rental payments. In addition, she says that an investor should look for funds where the offshore allocation reduces risk rather than increases it. By this, she says that investors should determine whether the offshore allocation is invested in emerging-market assets or not.

6. Contego MET Wealth Creator Fund of Funds

FUND MANAGER: KOBUS LOUW

One-year return (Fund/Inflation):

16.33%/4.6%

Three-year annualised return (Fund/Inflation):

14.95%/5.73%

THE CONTEGO MET WEALTH CREATOR FUND OF FUNDS invests in underlying funds not limited to Contego Asset Management's offering. The fund isn't using its full foreign allocation as it is bullish on the rand.

"Normally we would like as much as possible of the fund in offshore," says Kobus Louw, manager of the fund. This "is to protect against weakness in the rand and uncertainty in South Africa".

With the rand "hovering at around R14 for a dollar", most economists are in consensus that the currency is weak, according to him. "It's not the opportune time to take money offshore per se," he says.

Looking at the markets, there are "huge global risks" including the US Fed considering raising interest rates and setting the direction for most other countries, the Chinese economic cooldown, the migrant crisis in Europe, war in the Middle East and Russia being intent on world dominance, according to him.

Local risks include the economic slowdown, which could be an igniting factor of student unrests, and poor service delivery, Louw explains.

"If you look to the horizon, everything looks uncertain," he says. "It's a difficult time to invest. So where do you put your money? You have to put it somewhere as you can't keep it in cash."

Over the longer term equities and property would outperform inflation, Louw says, even as the local equity market looks expensive at the moment.

With the global and local economy "very fragile" any sudden shock would probably hit stock markets, he says.

When choosing a balanced fund to invest your retirement money, an investor must consider that the fund should deliver returns of between four and five percentage points above inflation, says Louw, as retirees would have to live off these returns.

Another tip for investors is for them to ensure that a good portion of the balanced fund is invested offshore to mitigate against South African country risk, he says. ■

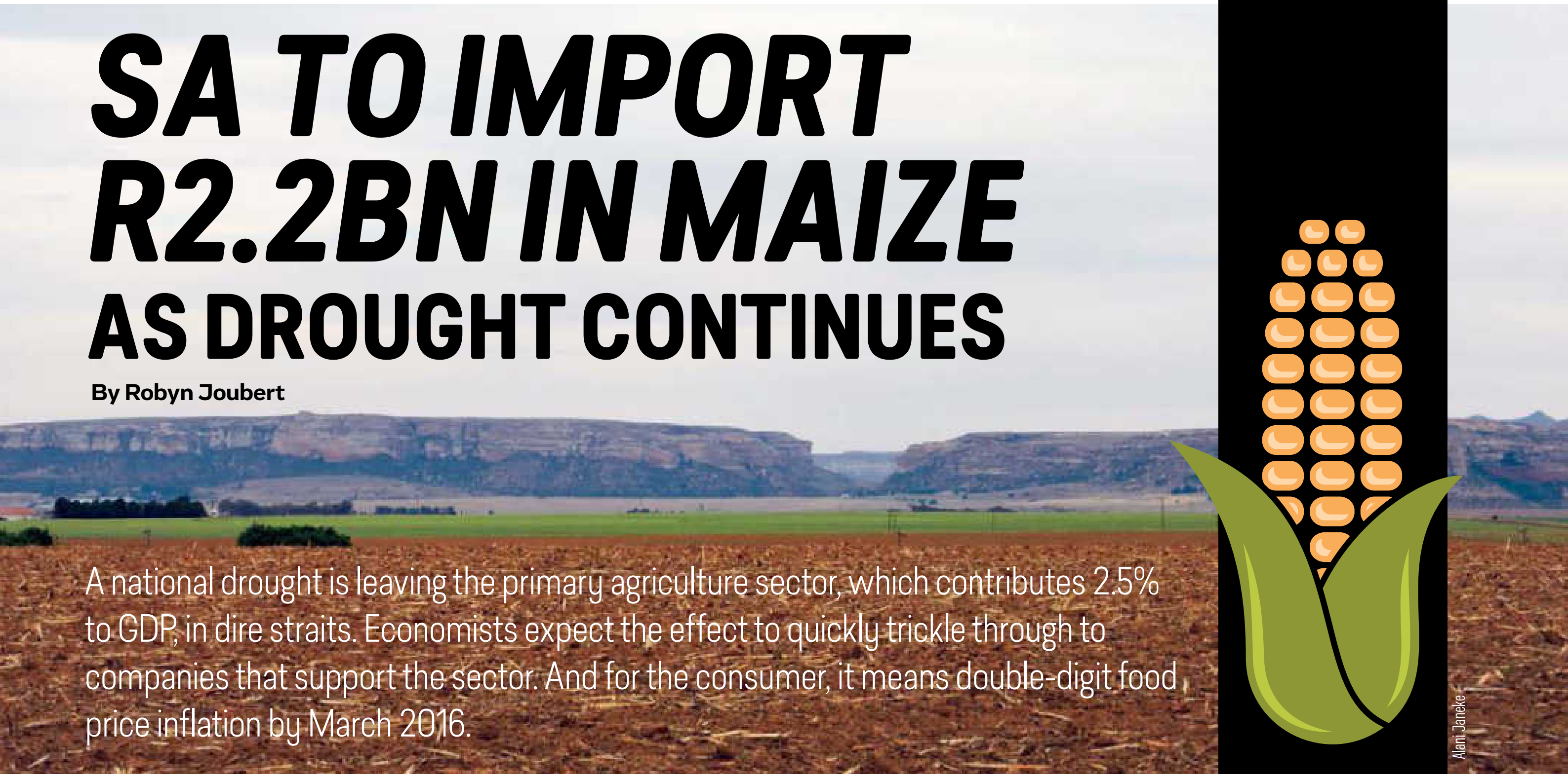
editorial@finweek.co.za

Kobus Louw
Fund manager: Contego MET Wealth Creator Fund of Funds

With the rand "hovering at around R14 for a dollar", most economists are in consensus that the currency is weak, according to him.

SA TO IMPORT R2.2BN IN MAIZE AS DROUGHT CONTINUES

By Robyn Joubert



A national drought is leaving the primary agriculture sector, which contributes 2.5% to GDP, in dire straits. Economists expect the effect to quickly trickle through to companies that support the sector. And for the consumer, it means double-digit food price inflation by March 2016.

Many farmers have prepared their lands to start planting, but rain is desperately needed for planting to commence.

If rain doesn't fall in the next few weeks, the crop and livestock prospects for many commodities will be decidedly bleak, with direct and material impact on the earnings of farmers and the companies that support them, and on food price inflation.

Coupled with sweltering heat, the prolonged drought is a major source of anxiety to the farming sector, which contributes about 2.5% annually to SA's GDP through primary agricultural production.

The main commodities affected by the drought are maize, wheat, sugar cane and citrus, although all commodities and livestock in drought-stricken areas are affected.

Unlike more common localised droughts, SA is currently in the grip of a national drought.

"The only areas where there are not problems are the Eastern and Southern Cape. There are severe problems in Mpumalanga, KZN, most of the Free State, parts of Limpopo and parts of North West," says Johan van den Berg, Santam agriculture manager: specialised crop insurance. "The northern parts of the Northern Cape are also suffering severely and in some parts of the Kalahari, north of Upington, rain last occurred more than 18 months ago."

In KZN, which accounts for 24.4% of SA's agricultural activity according to Stats SA, dam water levels were sitting at 57.9% of capacity as at 2 November (compared with 70.5% a year earlier), with Hazelmere Dam at 26.3% (43.5%), Midmar Dam at 53.1% (68.7%), Hluhluwe Dam at 30.2% (70%) and Pongolapoort Dam at 52.8% (63.1%). The North West's 25 dams are at 45.9% capacity (68.7%), while Free State dams are at 66.4% (78%).

> "For the first time in 7 years we will become a net importer, importing white maize from Mexico and Zambia and yellow maize from Argentina and Brazil."

"While large dam water levels are still respectable, medium and smaller dams are in most cases empty or very close to empty," explains Van den Berg. "This will affect irrigation in smaller irrigation areas. Borehole water is also becoming a problem and supply to animals and for human consumption is becoming a serious concern."

Net importer of maize

The next few weeks are crucial for the maize industry, which grows 91% of its crop without irrigation. Maize planting takes place from mid-October to late December.

"Maize tonnage has decreased from a record bumper crop of 14.2m tons in 2013/14 to just under 10m tons in 2014/15. For the first time in seven years, we will become a net importer, importing white maize from Mexico and Zambia and yellow maize from Argentina and Brazil," says Agri SA senior economist Thabi Nkosi. "We need to import an estimated 770 000 tons of maize this season, of which almost 60% has already been imported. This will cost the economy about R2.2bn at current prices and tonnages."

Of the 770 000 tons of imports, 700 000 tons are yellow maize, which is mainly used for livestock feed. "The situation is more desperate on the livestock side but we are also concerned about supply of white maize, which is used for consumer consumption. Not a lot of countries produce white maize," Nkosi says.

Poultry double whammy

Astral Foods CEO Chris Schutte says conditions in maize producing areas would have a dramatic effect on the

The main commodities affected by the drought are maize, wheat, sugar cane and citrus, although all commodities and livestock in drought-stricken areas are affected.

poultry sector. "If maize farmers, especially in the eastern areas like Mpumalanga, don't get good rain soon, they will be unable to plant. It will lead to reduced acreage and probably also a reduced yield. Coming on the back of the previously poor crop, it will severely upset the maize balance sheet and will most probably push the price to record highs," he says.

This would have a severe impact on the production cost of commercial chickens. "Feed makes up 65% of the cost of producing a chicken. In January and February, we will see feed prices increasing to the highest level in my history of 32 years in poultry. Producers have to try and recover part of it from the consumer. But retail is dead set against any price increases so producers will go into a margin squeeze of note. This inability to recover the higher maize cost could lead to the demise of smaller producers," Schutte states.

The heat wave was also wreaking havoc on poultry production, with the wind entering naturally ventilated poultry houses being warmer than the air inside. Chickens don't eat when they are hot and so their growth slows.

"It's a double whammy for poultry producers," Schutte says. "It will take long, slow, soft rain to improve soil moisture – and this is unlikely because of the effect of El Niño. This is a dark cloud with no silver lining. And it's not a rain cloud."

Red meat prices could rocket

The drought has also resulted in a crisis in terms of grazing and dry matter for animals. Hay and fodder has become so expensive that many farmers struggle to afford to feed their herds. The cost of grass bales has increased from about R250/bale of medium-quality grass a year ago, to R450 or more.

Dave Smit, a grass farmer from Tweedie in the KwaZulu-Natal Midlands, says the situation is desperate. "It is not just that hay has become expensive. It is that there is next to nothing available. Where we should be heading for second cuts on rainfed grass, we have had just one minute cut. The grass looks like a soccer field."

As a result, farmers are cutting their herd sizes, "right down into their nucleus herds", says Red Meat Producers Organisation CEO Gerhard Schutte. "Their overdrafts are up to the limit."

"Even after rains, it would take two to four years for farmers to recover financially, and it will be a fine balance between paying the bill for the drought and expanding."

Abattoir figures indicate the rate at which farmers are sending animals to market. "The national slaughter figure for mutton for October was 431 820 sheep, 10% higher than the previous month. Beef is 21% higher than

Wheat fields between Clarens and Fouriesburg in the eastern Free State. While some farmers have been able to plant, follow-up rain is urgently needed to avoid damage to crops.

Alani Janeke

Will it rain before Christmas?

South Africa is still in the grip of a very strong El Niño phase, although there are indications that El Niño will reach maturity relatively early, before December. This can assist in improving the conditions for the second part of the season. In the short term, conditions that are more conducive to rainfall should occur in the second part of November in most of the summer crop area . "In the longer term, most strong El Niños of the past were followed by a relatively strong La Niña phase and resulted in wet conditions. If this is also true for the current situation, 2016/17 may [experience] favourable rainfall conditions," says Johan van den Berg, Santam Agriculture manager: specialised crop insurance.

a year ago, at 258 443 cattle. Last year was also dry [with an elevated slaughter rate], so on top of that we are still slaughtering more cattle," says Pieter Cornelius, AgInfo Manager: Livestock.

There is currently sufficient livestock on farms to ensure normal red meat supply. However, livestock farmers are running the risk of animal mortality, especially among cattle. Many animals have just given birth and need high-quality nutrition. If rain holds off until next winter, it will send meat prices rocketing. "The effect will start to be felt from next winter to the end of 2016. SA imports little meat but if local supplies fall short, we will be forced to import from countries like Australia and New Zealand," says Cornelius. "This will have a strong effect on prices. The price of medium cow meat from Australia for October is R68.39/kg, compared to R28.74/kg for SA's Class C2/C3; while medium steer meat costs R74.09/kg, compared to R33.92/kg for SA's Class A2/A3. The import parity price for Australian trade lamb is R66.48/kg compared to R53.89/kg for SA Class A2/A3."

The rand has already fallen 21.3% against the dollar in the past 12 months. "If we go into a prolonged drought and the economy fails to perform, the rand could depreciate 30% or 40% year-on-year, making imports even more expensive," Cornelius adds.

Two seasons of drought for sugar cane

In the sugar cane industry, the drought has thus far spanned two production seasons, becoming increasingly serious in the 2015/16 season. Estimates as at September predict the loss of grower revenue to be R1.9bn, with the national crop estimated to be 25.89% lower than 2013/14 at 14.8m tons, compared with 20m tons in 2013/14 and 17.7m tons in 2014/15.

"This drought is deemed one of the worst in 100 years," says Richard Nicholson, economic research manager at the SA Cane Growers' Association. "The entire KZN dryland producing region has been negatively affected, with the North Coast, Zululand and the Midlands particularly affected by production declines." Mills at Umzimkulu and Darnall have been closed.

The drought has caused the farm gate price of sugar and molasses recovered from the sugar cane to increase due to lower supply. "However sugar producers are still able to meet domestic demand for sugar so the price has not yet been drastically affected," Nicholson says.

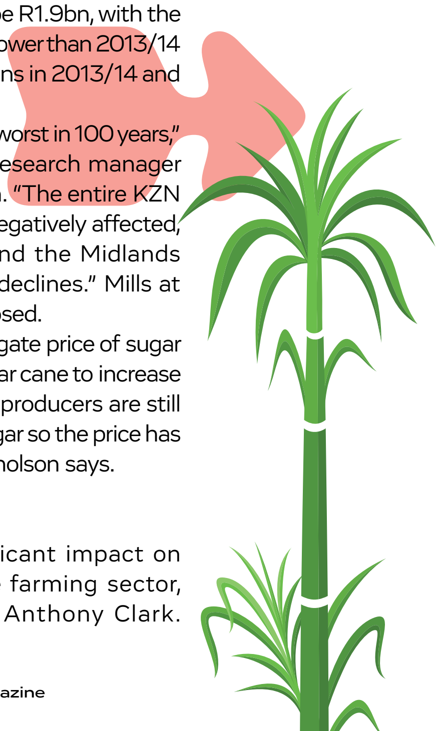
The pain trickles down

The drought would have a significant impact on the broader economy and on the farming sector, says Vunani Securities analyst Anthony Clark.

The farming sector contributes about **2.5%** annually to SA's GDP through primary agricultural production.

Chris Schutte
CEO of Astral Foods

Richard Nicholson
Economic research manager at the SA Cane Growers' Association



"We have already seen that the lower maize crop and significantly lower wheat crop has had a direct, material effect on the earnings of farmers and companies that support them. Equipment sales, for example, have fallen sharply."

Grain SA economist Wandile Sihlobo says maize prices had hit record highs and remained at the upper levels. "White maize is now sitting at around R3 100/ton. That is 65% higher than a year ago. Yellow maize is around R2 800/ton and that is 45% higher than a year ago," Sihlobo explains.

Clark expects higher prices to filter through to consumers by the end of the first quarter of 2016.

"Most food companies hedge their procurement three to six months forward. As they start to unwind their positions, they will have no choice but to pass on underlying price inflation to consumers. We are looking at double-digit consumer food price inflation on all basic commodities like mealie meal and bread from March 2016, which will lead to volume pressure and stress on the retail side," Clark says.

Unlisted agricultural companies, such as OTC, Senwes and Kaap Agri, and food companies like Pioneer and Tiger Brands, would be impacted, but some more so than others.

"Pioneer Foods is a very large staples business involving milling and the supply of wheat and mealie meal. They will have greater exposure than Tiger Brands, which is more of a grocery-type business. It is not a crisis but if prices remain high and if the 2016 wheat and maize crops do not recover, it will mean margin contraction and lower earnings."

The impact could also be felt by agri-insurance companies. Drought cover is not available on winter crops anymore but it is on summer crops, which farmers have been unable to plant. If conditions prevent them from planting summer crops, "this will reduce the potential market for insurance, especially hail insurance, which is the main line of income for most insurance companies", Van den Berg explains.

The planting window for summer crops is becoming critical in the Eastern Free State, KZN and Mpumalanga, with window periods very close to an end. Farmers in the rest of the Free State and North West can still plant maize until about Christmas and sunflower until the second to third week in January. "It is very likely that farmers in the eastern production areas will not be able to plant all intended hectares before the optimum planting window closed," Van den Berg says.

If rain falls before the end of November, farmers will probably still plant but the yield potential will be much lower due to a shorter growing season.

"The only thing to mitigate the worst-case scenario is if SA has good rains and a bumper maize crop of 12m tons to 14m tons, along with a stable rand. 2016 is going to be a challenging period for food companies that have enjoyed margin expansion over the past few years; and poultry companies that have enjoyed protectionism and rising poultry prices," Clark says. ■

editorial@finweek.co.za

Photos: Robyn Joubert

WAVES OF CHANGE ENGULF SA TELECOMS SECTOR

By the *finweek* team

South Africa's incestuous telecoms oligopoly is likely to look very different next year as acquisitions, proposed mergers, costly scandals and resignations colour the end of 2015.

On 9 November, MTN Group CEO Sifiso Dabengwa fell on his sword and announced his immediate departure as the company flails under demands for a massive fine for alleged wrongdoing in Nigeria. Vodacom has been given the go-ahead to buy Neotel, but Telkom, MTN and Cell C say it's not fair and have taken the Competition Commission's thumbs up on the deal to the Competition Tribunal. Telkom finally announced this week what everyone already knew – that it is in talks to buy its closest competitor Cell C. But the Saudi-based owner of 75% of the company, Oger Telecom, rejected the first offer for the debt-mired business. Telkom says it's doing a due diligence so it will likely make another offer.

Shameel Joosub
CEO of Vodacom

Sifiso Dabengwa
Former CEO of MTN Group

Telkom

Telkom is stirring the pot in local telecoms, having finally demonstrated its intentions to expand its mobile unit as its fixed-line revenue continues to fall.

But this week the JSE-listed fixed-line and mobile operator said it wasn't limiting its expansion options to Cell C – the country's third-biggest mobile operator – to make itself more competitive with the Vodacom and MTN duopoly.

Telkom has been left woefully behind its competitors in the mobile space since selling its 50% stake in Vodacom in 2009 to move into the market as an independent player. The purchase of privately held Cell C could add an estimated 20m mobile subscribers to Telkom's 2.1m.

However, Telkom's cheeky R14bn bid earlier this year for Cell C was snubbed by Cell C's major shareholder Oger Telecom, which valued its 75% stake at more than R20bn. Telkom's offer would have just about covered Cell C's monstrous debt, leaving Oger in the clear. While Telkom issued a cautionary this week saying it was conducting a due diligence, both Telkom and Cell C have made it clear they have other options.

Oger Telecom said it had received six bids to take Cell C off its hands. In turn, Telkom spokesperson Jacqui O'Sullivan said the company was considering "both organic and inorganic ways to further improve".

Telkom hasn't been idle in its efforts to improve its bottom line and boost its mobile operations. It hasn't always worked out though: the company's proposed network sharing and roaming agreement with MTN got the thumbs down from the Competition Commission in August. The deal would have seen MTN acquiring certain radio access network (RAN) assets from Telkom. MTN would also have taken over financial and operational responsibility of the roll-out and operation of Telkom's RAN, while both companies would roam on each other's mobile networks. But the commission said the agreement, which would have given MTN access to additional spectrum capacity, would give MTN a competition-killing boost into the superfast LTE data space.

Vodacom

In the current industry climate Vodacom's interim results released on 9 November are no doubt giving group CEO Shameel Joosub good reason to take a long lunch.

The company reported a 6% gain in profit for the six months to end September and a 6.8% increase in active customers to 65.1m across the group's operations. Locally the active customer numbers increased by 1.6m to 33.7m. Much of the reason for the sterling figures lies in the company's data revenue, which leapt 34% across the board. (Also see page 17.)

Vodacom, which is 65% owned by Britain's Vodafone, currently operates in the Democratic Republic of Congo, Lesotho, Mozambique and Tanzania as well as South Africa.

But not everything is going Vodacom's way. After getting approval from Icasa and the Competition Commission earlier this year to buy converged telecoms operator Neotel for R7bn, the company's three major competitors have launched a furious campaign to have the deal stopped. Tshepo Ramodibe, head of corporate affairs at Vodacom, said the commission's ruling is to be heard between 23 November and 11 December. He couldn't say when a final decision would be delivered by the tribunal.

At the heart of the fight is that Vodacom will get access to Neotel's much-desired radio spectrum used for high-speed mobile data services, which would put it miles ahead of the pack. Transferring the control of the licences would – according to the naysayers – devastate competition. Customers would be the ultimate losers as Vodacom could set its price.

There is good reason for Telkom and MTN to feel snubbed since their proposed hook-up, which would have given MTN access to additional spectrum, was recently scuppered by regulators. The regulator ruled against this for virtually the identical reasons Cell C, Telkom and MTN are objecting to the Vodacom-Neotel deal. The reasoning was that "MTN would be able to gain a significant competitive and time advantage..." and "...access to additional spectrum capacity by MTN will confer first mover advantages to it relating to network speed, capacity and mobile offerings".

MTN

It isn't yet clear whether MTN CEO Sifiso Dabengwa fell or was pushed. However, Dabengwa's announcement, made early on Monday 9 November, that he had resigned with immediate effect didn't appear to alarm shareholders with the stock rising 1.6% in the hours after the announcement.

MTN is facing charges of operational negligence in Nigeria, where the regulator slapped the company with a fine of $5.2bn (R73.7bn) a fortnight ago. (Also see page 11.)

Dabengwa's departure came as shareholders and investors demanded answers about why the law hadn't been adhered to, and claimed there was a lack of transparency. Fallout from the disaster saw MTN's share price tumble around 25% in the days following the 26 October announcement, causing the company to suspend trade on the JSE for several hours. MTN's market value shed more than R60bn.

At the heart of the issue is that MTN failed to disconnect 5.1m unregistered sim cards. In an effort to track down criminals and curb criminal activities – including that of Islamist terror group Boko Haram – Nigeria's Communications Commission in 2011 made it compulsory for mobile operators to register all sim cards.

But the importance of the registration came to the fore in September, a month before the fine was imposed, when the country's former finance minister Olu Falae was kidnapped. The men who kidnapped him used an unregistered MTN sim to demand a ransom.

Victor Kgomoeswana, Africa commentator, called the fine "outrageous". He said while there was no doubt the company "should be penalised for its transgression" $5.2bn was out of proportion. The fine – 23% of the annual budget of Africa's biggest economy of $22.6bn – amounts to $1 000 (more than R10 000) per unregistered sim card. Nigeria is MTN's biggest market with more than 60m subscribers. The country brought in sales of about $4bn last year, equal to just over a third of the group's total revenue.

The Public Investment Corporation (PIC), South Africa's state-owned pension fund manager, which holds 16.5% of MTN on behalf of the Government Employees Pension Fund (GEPF), is MTN's largest shareholder. Dan Matjila, CEO of the PIC, was scathing about MTN's lack of compliance, saying the company should have "handled it better right from the outset" and that the sanction couldn't have come as a surprise to MTN.

But in response to the criticism, MTN denied it had done anything wrong, saying: "MTN has conducted its business in accordance with established principles related to sound corporate governance."

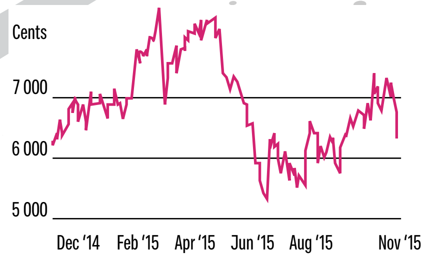
The timing couldn't have been worse for the listing of the company's five-year-old BEE scheme, MTN Zakhele, on 5 November. The scheme owns 4% of MTN. Shareholders took a 26% hit before board chair Sindi Mabaso-Koyana blew the kudu horn to open trade.

The share, trading under the code MTNZBE, opened at R75.20, down from R102.30, which was its last over-the-counter trading price.

Non-executive chairman Phuthuma Nhleko will take over the reins at MTN for the next six months while the company finds a successor for Dabengwa, MTN announced on 9 November. ■

editorial@finweek.co.za

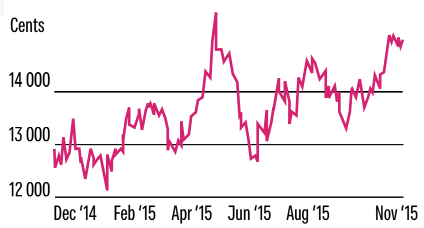
TELKOM



52-week range:	R52.44 - R85.34
Price/earnings ratio:	9.96
1-year total return:	+0.91%
Market capitalisation:	R31.87 bn
Earnings per share:	R6.07
Dividend yield:	3.56%
Average volume over 30 days:	1 505 105

SOURCE: Bloomberg.com

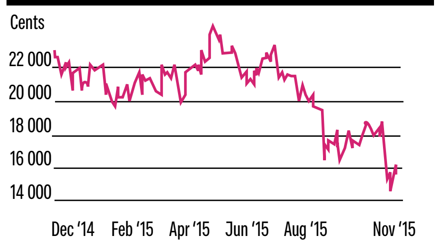
VODACOM



52-week range:	R121.01 - R156.54
Price/earnings ratio:	16.82
1-year total return:	+22.26%
Market capitalisation:	R221.33bn
Earnings per share:	R8.85
Dividend yield:	5.34%
Average volume over 30 days:	1 186 169

SOURCE: Bloomberg.com

MTN



52-week range:	R142.50 - R250
Price/earnings ratio:	10.44
1-year total return:	-29.71%
Market capitalisation:	R281.49bn
Earnings per share:	R14.61
Dividend yield:	8.39%
Average volume over 30 days:	7 854 296

SOURCE: Bloomberg.com

DIESEL CAR BOOM ABOUT TO BUST

Conventionally fuelled vehicles are under the spotlight due to emissions cheating abroad, but it is the 'clean' fuel diesel that has drawn the most criticism. *finweek* considers whether green cars may now gain the upper hand.

By Glenda Williams

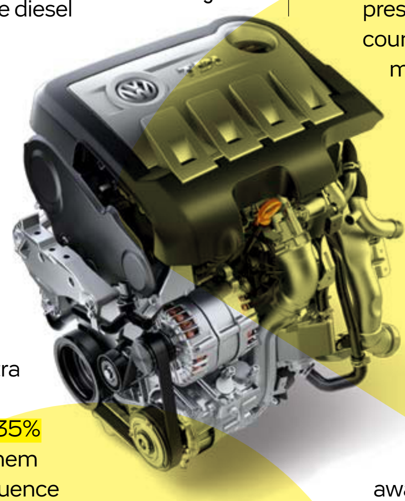
Change is inevitable. And in the motoring world that inevitability is the move away from fossil-fuelled cars to sustainable and eco-friendly vehicles. That said, the current emissions saga could bring about the early demise of the diesel engine in the passenger-vehicle market.

The diesel engine is the powertrain of choice for an increasing number of passenger vehicle owners; in Western Europe alone, diesel models account for 52% of the market. Cost-conscious consumers opting for diesel vehicles do so not only for the superior fuel efficiency that these vehicles provide, but also for their renowned robustness, added torque at low revs, enhanced cruising performance and reduced emissions. Locally there's an extra bonus – a lower fuel cost.

Diesel vehicles currently make up around 35% of new vehicle sales in South Africa, 18% of them passenger vehicles. But as a natural consequence of diesel emission cheating abroad, consumers may begin to look at alternatives.

"People may question diesel technology but the reality is the engine is a good one; it is extremely efficient and the technology well-proven," says Tim Abbott, managing director of BMW Group South Africa.

"The biggest risk is if people start perceiving the diesel engine as bad. This will affect numerous vehicles and the cost of motoring will go up as a consequence. And that is bad for everyone."



A VW turbo-charged direct injection diesel engine

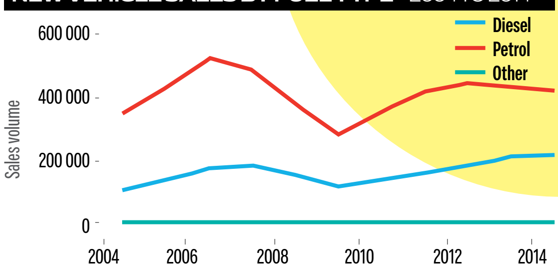
Countries and cities around the globe are under pressure to tackle pollution. And in many European countries like France and Norway, anti-diesel measures are putting added pressure on the maligned engine. For carmakers like Volvo and BMW, whose reliance on diesel model sales in Europe is high, at 87% and 81% respectively according to Statista.com, this can't be good news. Locally, Volvo attributes 57% of its 2015 year-to-date sales to its diesel variants, against BMW's 36%.

Other manufacturers like Toyota are less diesel-dependent. With the exception of a number of SUVs or bakkies (often by nature diesels), the Corolla 1.4 diesel is Toyota's only passenger diesel vehicle on sale in SA.

"The reality is that the diesel engine can't go away. It is core to our business, core to everybody's lifestyle," Abbott tells *finweek*. "We have not seen a change in consumer behaviour at dealership level. The efficiency of the engine is so good it is unlikely to stop people from buying a diesel vehicle."

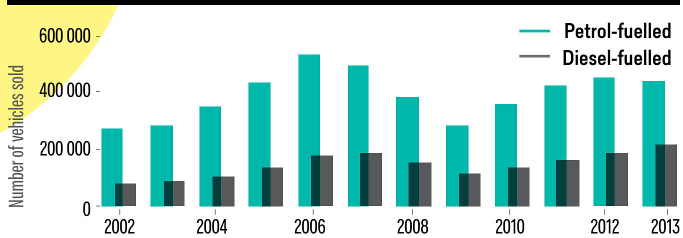
Says Nicholas Nkosi, head of Standard Bank Vehicle and Asset Finance, Retail Banking: "Maybe it is too early to tell, but certainly there is nothing in our

NEW VEHICLE SALES BY FUEL TYPE - 2004 TO 2014



SOURCE: Lightsone Auto

TOTAL NUMBER OF NEW VEHICLE SALES IN SOUTH AFRICA, 2002-2013



SOURCE: Naamsa

Nicholas Nkosi
Head of Standard Bank Vehicle and Asset Finance, Retail Banking

Håkan Samuelsson
President and CEO of Volvo Cars

numbers to suggest that people are changing their minds about buying a diesel vehicle."

Nonetheless there are misperceptions and myths around emissions of the diesel vehicle and Abbott believes that industry – possibly through the National Association of Automobile Manufacturers of South Africa (Naamsa) as an independent body – has a part to play in overcoming this.

But if diesel vehicles are to overcome the emissions backlash, emissions testing will probably have to reflect real-life road conditions rather than the controlled environment of a laboratory. Inevitably though, given sustainability goals and the drive for less dependence on the fossil-fuelled car as the bulk provider of sales, car manufacturers are likely to shift focus from conventionally fuelled vehicles and accelerate their hybrid and electric programmes.

Alternatively powered cars: The new conventional?

For South Africans who experienced the Nissan Leaf as the first electric vehicle to grace our shores, the car was anything but conventional.

Hybrid and electric technology may not have caught on locally as it has in Europe or Japan – where according to the International Council for Clean Transportation (ICCT) every fifth new car is an electrified vehicle – but sustainability issues require that it will not be too far down the road when these vehicles are considered conventional.

Despite not being as cost-effective as the diesel vehicle, Abbott says the hybrid is coming in fast, the brand's i8 sports hybrid already achieving over 100 sales since launch in March. So too is electric technology, BMW's 79 sales of the electric i3 are more than double the 31 of Nissan's Leaf for the period March to October. Expected growth of the i3, the i8 and the 740e plug-in hybrid launching next year, means that the current four BMW dealers catering to electric vehicles are to be expanded to 15.

Volvo, meanwhile, has announced a comprehensive electrification and hybrid strategy. Hybrids will be introduced across its entire range and the Swedish carmaker says it will develop an entirely new range of electrified smaller cars and build a fully electric car for sale by 2019. The XC90 T8 will be Volvo's first hybrid to be sold locally.

"We believe that the time has come for electrified cars to cease being a niche technology and enter the mainstream.

"We believe that the time has come for electrified cars to cease being a niche technology and enter the mainstream. We are confident that by 2020, 10% of Volvo's global sales will be electrified," says Håkan Samuelsson, president and CEO of Volvo Cars.

But at what cost? "We have come to a point where the cost versus benefit calculation for electrification is now almost positive. Battery technology has improved, costs are going down and public acceptance of electrification is no longer a question," adds Dr Peter Mertens, senior vice-president for research and development for Volvo Cars.

Undoubtedly, government support for electric and hybrid vehicles is required to render these cars more cost effective and attractive to buyers.

Says Toyota SA's spokesperson Clynton Yon: "Hybrids have not really caught on in SA because of the premium in price. On average Toyota only sells 30 hybrids a month in South Africa [Prius, Auris and Yaris models]. By contrast, in Europe, 55% of all Toyota Auris sales are hybrids," he tells *finweek*.

"The incentive to purchase a greener car is not there," says Yon. "The hybrid technology is expensive and unlike other countries around the world, hybrid vehicles in South Africa receive no rebates from government. Some countries even subsidise hybrid vehicles while others like the UK offer congestion tax rebates."

Locally, Volvo and BMW sales of hybrids only represent 1% of their year-to-date sales.

"South Africa is the only country in the world where the government does not support the electric car," says Abbott. "In Europe and the US you get incentives of €5 000 and $5 000 per vehicle. And access to bus lanes and preferential parking in CBDs," he adds. "Austria has the highest prevalence of electric cars in the world not only because of incentives, but also because these vehicles can drive in the bus lane. The time benefit of that is huge."

Costs aside, sales of electric vehicles are unlikely to be boosted unless range anxiety is also overcome. And this means extended range and deployment of charging infrastructure. In a bid to increase the number of charging posts, discussions have commenced with some of the larger supermarket chains and shopping malls, Abbott tells *finweek*. "We can only do so much and need government support as well," he says, citing charging posts around Gautrain stations as an area where government could play a key role.

Already in motion are charging stations in residential complexes. Blok's latest residential development TWO16ONHL on Cape Town's Atlantic Seaboard, due for completion in 2017, will feature a charging station for electric vehicles. ■

editorial@finweek.co.za

Nissan Leaf
SA's first electric vehicle

Note: Given sensitivity around emissions manipulations by Volkswagen AG abroad, Volkswagen SA declined to comment for this article.

ROLFES SHIFTS TO *NICHE CHEMICAL* PRODUCTS

By Jaco Visser

Banking on global population growth and consequent increased need for food and water, Rolfes Group has transformed itself from focusing on commodity chemicals to niche chemical products over the past few years. *finweek* spoke to recently appointed CEO Lizette Lynch about the company's transformation and alignment for the future.

Rolfes Group, which listed on the JSE in 2007 amid the listings boom before the financial crisis, is moving away from its traditional focus on commodity chemicals – such as resin used in paint – to niche ingredients, especially targeting the high-value food-processing industry. Nothing illustrates this better than the company's recent acquisition of Bragan Chemicals, a niche player in the food-chemicals industry, for R213.1m.

The transaction would be funded by issuing R145m worth of new stock to a company controlled by non-executive director Michael Teke and Eziko Investments, an associate of non-executive director Dina Mncube.

The board of Rolfes Group, led by Bulelani Ngcuka, husband of former vice-president Phumzile Mlambo-Ngcuka and first national director of public prosecutions in South Africa, decided that it was "time for a change" as the company's sales grew to more than R1.1bn from R200m at listing, according to Lizette Lynch, CEO of Rolfes.

Total sales at Rolfes jumped
13%
to R1.13bn
in the 12 months ending June compared with R1bn for the previous period.

"We decided to formulate a proper strategy for the future," says Lynch. "We had to decide what is core and non-core and complete [the] ownership of those businesses."

As part of this strategy, Rolfes decided to buy out most of the minority shareholders in its underlying subsidiaries, which include agricultural chemical unit Agchem, according to her. The only remaining minority shareholders are in the group's water division.

The company is currently working on a range of biological products as most of the major players in the food sector are considering the organic food market.

Moving into the rest of the continent and elsewhere

With its focus on the ever-increasing need for food and water, the company is turning to emerging markets for growth, Lynch says. With the proximity of emerging economies in the rest of Africa, Rolfes's location couldn't be more favourable.

"Africa is on our doorstep," she says. "It's largely unexplored. There are a number of thriving African economies."

Rolfes's export sales jumped 20% during the 12 months ending 30 June as revenue from products shipped to the rest of Africa and Eastern Europe comprised R257.4m, or 22.7% of total revenue, compared with 21.4% in the previous financial year, according to the company's annual financial statements. Total sales at Rolfes jumped 13% to R1.13bn in the 12 months ending June compared with R1bn for the previous period.

Rolfes's products are sold in African countries with a certain level of infrastructure and the group steers clear of war-torn nations, Lynch says.

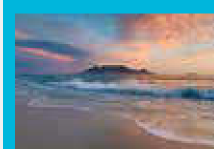
"The markets that are available are substantial and large with mostly Indian and Chinese players in those markets," she says. "We believe we know Africa. We were born in Africa and we can do better business than any other foreign players."

The group's risk-mitigating measures, which include credit-risk cover and a limited bricks-and-mortar presence in other African countries, have led to negligible bad-debt write-offs, according to Lynch. Rolfes has a physical presence in Zambia, but has never lost stock, she said. The group also owns a service business in Botswana that focuses on the water sector, she says.

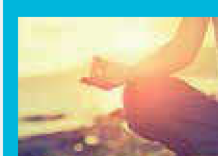
Exports into the rest of Africa are worth about

GETTING TO KNOW LIZETTE LYNCH

How do you keep up with the news?
I try to catch up with all the CNBC interviews that happen during the day.



Where is your favourite vacation spot?
Where else but the Cape? I love holidaying in South Africa. I also love anywhere where I can see the sea; I like to unwind there and just look out over the ocean.



What do you do to relax?
I do quite a bit of yoga. I find it's the best way to just let go – a lot of yoga and a lot of meditation.

R180m per year, she says.

Rolfes is also eyeing the growth potential of Eastern European nation Romania, which Lynch describes as the "bread basket" of that continent.

"There is a lot of potential in that market," she says.

Rolfes ensures that it has proper credit insurance in its Romanian business, according to her.

"It is also a difficult market to trade in," Lynch says, adding that the business, which Rolfes bought 18 months ago, is breaking even and there is "lots of opportunity" for future growth.

New developments in SA

Locally, Rolfes is targeting the growing organic-food market, which is driven by consumers' focus on healthier living. This trend is forcing the agricultural sector to rethink the use of traditional chemical products and move towards organic products.

"We're always looking for new products to develop," says Lynch. "Especially organic products."

The company's research and development of new chemical products are often done in conjunction with universities, such as the University of Pretoria.

"It is a very expensive exercise," she says with regard to research and development. Nevertheless, the size of the organic market is expanding, according to her.

The company is currently working on a range of biological products as most of the major players in the food sector are considering the organic-food market, she explains.

"It is the way of the future," she says. "We need to make sure we develop a range."

The move towards developing more products for the organic market is part of the company's strategy to bank on a growing middle-class consumer market and hence the increased need for food.

The acquisition of Bragan shifts Rolfes's focus towards specialty chemicals, even though Bragan is a trading company with lower margins than a producer of chemicals would have.

Bragan has allowed Rolfes entry into the food industry, where there are a lot of synergies with the group's other units, for example the water unit, Lynch explains. With companies such as SABMiller as a potential customer, Rolfes can now approach them with a bigger and more diverse basket of chemical products, Lynch adds. ■

editorial@finweek.co.za

on the money

THIS WEEK:

ENTREPRENEUR

By Jon Pienaar

The woman behind Cape Town's transformation

As CEO of the Cape Town Partnership, Bulelwa Makalima-Ngewana's career narrative runs parallel to that of the Mother City's revitalisation. She shares her story with *finweek*.

The city of Cape Town is one of the continent's cleanest and most hospitable metros, as well as one of the world's best places to live, play and stay. Need evidence for this? British newspaper *The Guardian* and the US *The New York Times* both voted Cape Town top holiday destination for 2014 – the same year the city was declared World Design Capital.

Cape Town has it all – the pristine beaches, the natural beauty of Table Mountain and Kirstenbosch Gardens, the rich history of Robben Island, as well as the clubs, cocktail bars, coffee bars and world-class restaurants that win international awards.

Since 2001, the residential population of the city centre has risen by some **76%**, and the current estimated value of property in the city centre is **R21bn.**

A tarnished past

But the city that is Cape Town wasn't always wonderful. Ten years ago, tour guides advised tourists against visiting the city centre, rather ferrying them to the commercialised harbour at the V&A Waterfront or outlying areas instead. Crime was commonplace, buildings were boarded up and stores were closing down.

Makalima-Ngewana recalls the urban decay: "People were being mugged at gunpoint all the time, there was no parking management system, the city was dirty and it looked like Durban."

City Walk Saturdays provide an opportunity for local talent to showcase their art.

The Cape Town Partnership has worked at creating strategies for improving Cape Town's CBD to benefit business, tourism and the city's people.


Photo by Bronson Harrington via Flickr

The town planner used to live in Durban, a city she says was once a shopping mecca but has now lost its lustre.

"A lot of the corporates were moving out of the CBD," she says. Old Mutual fled from its building, which was – according to Makalima-Ngewana – one of the best in South Africa. "That beautiful art deco building – Old Mutual boarded it up and built a new campus in Pinelands because town was completely impossible to do business in."

The situation came to a head when city landlords started defaulting on rates because tenancy figures fell. Valuations dropped and property investments lost value. In response, in 1999, the City of Cape Town, the South African Property Owners Association, the Regional Chamber of Commerce and Industry and other stakeholders founded a public/private partnership to manage Cape Town's CBD.

"We're now clean and safe, we just need to add people on weekends – that's what we're looking for."

Breathing new life into the CBD

At the time Makalima-Ngewana was working at the Centre for Conflict Resolution, but when South Africa was named host of the 2010 Soccer World Cup, she knew she had to get back into town planning. Makalima-Ngewana says she realised that SA's cities would be showcased in 2010, and she wanted to be part of the team that revitalised Cape Town.

Makalima-Ngewana started as a senior programme manager, which meant knocking on the doors of property owners to sell them on the idea of establishing a Central City Improvement District (CCID). The City Council was strapped for cash because it had to spend greater resources on previously disadvantaged areas, so part of the Cape Town Partnership's job was to convince property owners and businesses why rates and taxes needed to be supplemented. A tough sell in a recessionary environment, but this is where Makalima-Ngewana's experience in negotiating at the Centre for Conflict Resolution came in handy.

By 2006 the tide started to turn, as foreign investors started buying up city properties and Old Mutual invested in converting its old headquarters into much sought-after residential properties.

Makalima-Ngewana says that the next goal was to develop a forward-looking plan for the city. "We came up with what we call a city development strategy, which was looking at what the CBD would look like in 10 years or 15 years," she explains. "What we really want is the relationship with the people who are actually in the buildings – the corporates – who employ a lot of people. And those people, in order for town to sustain itself, need to be invested emotionally and financially in the space that they work in. They need to love the space. So, when I became CEO in 2013 we moved from a property-first strategy, to a people-first strategy."

But there is still a lot to be done. "We still have concierges who say to people, 'Don't go to town, it's so dangerous,'" Makalima-Ngewana says.

Then there's the problem of the city being relatively empty on weekends.

"We have an extraordinary situation where a Woolworths store, which has three floors of retail space in town, closes at five o'clock or at one o'clock on Saturdays and does not open on Sundays. Which Woolworths store in Cape Town does that?" exclaims Makalima-Ngewana. Her solution is a '24-hour city' strategy. "We're now clean and safe, we just need to add people on weekends – that's what we're looking for," she says.

The efforts are paying off

Making Cape Town more people-friendly, both for the health of its inhabitants and the benefit of the tourism industry is a lengthy process, says Makalima-Ngewana. It's a journey that has only just started, but is already showing results. Recent research shows that, since 1999, inner-city crime has halved, and most people say they feel safe in the CBD. Since 2001, the residential population of the city centre has risen by some 76%, and the current estimated value of property in the city centre is R21bn. In the year preceding the Soccer World Cup, R15bn was invested in city centre properties.

The World Famous Cape Town International Convention Centre (CTICC) has doubled in size since it was first built, and now hosts half of all international meetings in Africa. Since opening in 2003 the CTICC has helped created over 60 000 jobs.

What does someone with this type of high-pressure job do to relax? "I read. I garden. I just planted cranberries over the weekend. I love the fact that I can go into my garden and get a lemon, get this or that, and it's mine. It doesn't mean that it tastes better – well, I suppose to me it does." ■

editorial@finweek.co.za

BULELWA MAKALIMA-NGEWANA'S MANAGEMENT TIPS:

- "I must have the right team – and I've learnt that the right team is not necessarily a senior team; it's young, passionate professionals who live and breathe cities, as I do. In addition, a core of senior people – not senior in age, necessarily, but in experience."
- "As a CEO I'm aware of the changing nature of work, that people don't come to work and expect long-term stability. But they want to be appreciated, and to be enabled to create the kind of work that grows their careers. I've had to work on myself to not see every goodbye as a rejection but as a re-entry at some stage. We have people who work for us for a year or more, then go overseas, then come back."
- "It seems a cliché, but it's true that my biggest asset is the people who work for me, and our biggest asset as an institution is the relationship we have with the rest of the stakeholders."

Bulelwa Makalima-Ngewana heads up the Cape Town Partnership, which is all about helping make the Mother City a better place to live, work and play in.

Photo by Jon Pienaar

By Jessica Hubbard

Are local brands missing the mark?

If brands want to be relevant to black consumers, they are going to have to do more than simply 'black-vertise'. Critics say there are only a few South African brands that have managed to do go deeper with their brand messaging. How will other local brands get it right?

While the tone and style of local advertising and communications has undoubtedly become far more relevant to the average SA consumer in recent years, many argue that it is still largely coloured by a Western narrative. Indeed, if one glances through magazines or spends time channel surfing, most advertising appears to depict a decidedly European or North American context – not a proudly African or South African one. But, as local advertising professionals point out, the solution is not simply to 'black-vertise' and insert tired racial stereotypes into ads – it requires delving far deeper into realities that extend beyond race.

"It's not so much that the narrative is Western, it's just that it is profoundly uninteresting," argues Kabelo Lehlongwane, deputy strategy director at ad agency FCB Joburg. "When marketers 'black-vertise' they tend towards that which barely scratches the surface of who we are."

According to Lehlongwane, local marketers thus tend towards stories that reflect "first-base observations".

"This makes the work a little shallow – and therefore off the mark," he adds. "It's why it feels 'not black enough', which is different from it being 'too Western'."

In his view, local brands are attempting to tailor their work to reflect local contexts and realities, but end up working off miscalculated "and sometimes weird" ideas of what it means to be black.

"It's all 'black people are musically inclined and like to dance so we'll sell them everything from chicken to cellphone contracts by showing other blacks dancing' and so on," explains Lehlongwane. "And I'm not at all suggesting that it's wrong to show black people (or people of any race) dancing. It's just that dancing blacks can't be the beginning and end of the way we talk to people simply because we've got nothing else substantial to go on..."

"Although South Africa has produced a number of iconic brands, which have become part of the fabric of our society, there's still a great deal of 'wasted' advertising and communications with little impact."

Kabelo Lehlongwane
Deputy strategy director at FCB Joburg

Nicole Shapiro
Associate director of brand at Added Value S.A.

Nicole Shapiro, associate director of brand at Added Value S.A., a marketing consultancy, agrees that many local brands are trying to be relevant by tapping into "cheesy, and often offensive, stereotypes".

While she points to KOO and Castle Lager as examples of brands hitting the mark, she notes that "there are only a handful of brands" really getting it right.

"Although South Africa has produced a number of iconic brands, which have become part of the fabric of our society, there's still a great deal of 'wasted' advertising and communications with little impact because it's simply not relevant in the market," she says.

Besides using stereotypes, she notes that brands also tend to "apply" international campaigns in the local market with limited impact and success.

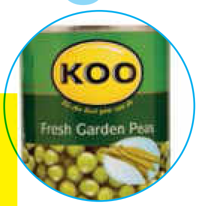
"They are merely reproducing international campaigns and ideas with some local actors, thinking that will hit the sweet spot," explains Shapiro.

That said, she maintains that there is "strong intent" among local brands and companies to re-target their propositions to speak relevantly to black consumers.

"For instance, think about the alcohol category: over the last few years, there have been a number of established brands that initially targeted the older, white, traditional males and now are clearly changing their strategic intent and focus – Bell's, Klipdrift, Oude Meester and Grant's immediately spring to mind."

Local brands are attempting to tailor their work to reflect local contexts and realities, but end up working off miscalculated "and sometimes weird" ideas of what it means to be black.

Getting it right



Not just skin deep

Chris Midgley, strategist at ad agency Blast Brand Catalysts, argues that instead of getting stuck on race, local marketers and advertisers should be going back to the basics of thorough market research and insights.

"One needs to ask: is there such a thing as a black reality, or is it simply a reality that happens to affect a person, irrespective of their race?" questions Midgley. "In South Africa, all too often we are too focused on the aspect of race. Good marketers and their agencies will be focused on what is important; strong insights into the market based on research and understanding of the markets psychographics, demographics, ambitions as well as nuances."

In his view, making race the focal point of any campaign is a mistake.

Lehlongwane echoes this sentiment, adding that "the best 'black-vertising'" isn't really just about black people...

"Some level of insight beyond something as arbitrary as skin [or] culture [is required]," he says. "I find that when you produce work that has more to it than 'blackness', you end up with something interesting. And then you can still flavour it with whatever your version of "dancing black" is – the point is there's more to it. And you'll generally connect with not only black people, but with people who aren't black."

He adds: "I'd like to see marketers moving past the superficial differences between races. And if they find the differences meaningful, they should be brave enough to [tackle] them head on."

Lehlongwane cites the example of SABC's television commercial depicting a South Africa where the white/black roles were reversed – "where white kids had to get around in taxis and be subjected to black middle-class ladies locking their doors as white kids innocently walk past".

"That spot wasn't just about skin colour – it was holding up a mirror to our society and showing us something we experience every day, but sometimes don't see," he says. ■

editorial@finweek.co.za

Changing their focus

KELLOGG'S #FAMILYMORNINGS TACKLES HARSH REALITIES

Added Value S.A.'s Nicole Shapiro points to Kellogg's as a brand that has effectively gone deeper with its brand messaging.

In the #FamilyMornings campaign, local actor and single dad, Hlomla Dandala, acknowledges how breakfast with his family has changed over the last few years.

"Breakfast cereal brands have always typically depicted the shiny, happy, white nuclear family in marketing and communications, but Kellogg's has recently taken a different approach – by focusing on real South African families in their advertising – and they're getting a lot of talk-ability and praise for their efforts," says Shapiro.

CARLING BLACK LABEL WINS OVER FOOTBALL FANS

Chris Midgley of Blast Brand Catalysts cites Carling Black Label as a brand that has used sharp local insights and understanding to charm consumers.

"Their Carling Black Label Cup competition leveraged off South Africans' love for sport (football) as well as their loyalties to two of the most successful and well supported teams (Orlando Pirates and Kaizer Chiefs)," he explains. "They let the fans become the coaches and choose the teams, player positions, etc., and gained huge market share and awareness as a result..."

By Jaco Visser

Buying vs renting premises

One of the most important decisions to make when getting a new small business up and running is whether to rent or buy a commercial property. *finweek* spoke to a commercial real estate agent about the pros and cons of each.

Whether you are buying a house or a commercial property, South African banks generally require a deposit, which makes buying property a capital-intensive exercise.

When buying a commercial property, a business will see a large drain on its monthly cash flow when servicing a bond and paying for the operational costs associated with owning a property, says Elton Holland, director of the Ikon Property Group, which specialises in commercial real estate.

"There is also generally at least a 30% equity requirement that a small business would have to take out of operating cash flow to fund the purchase of the property," he says.

Another important consideration is whether the purchased property would cater for future expansion of the business, according to Holland. "If not, then renting might be a better option for the short term," he says. "The [upside] of ownership is the ability to build the business' net asset wealth whilst utilising the business to pay off the bond."

If an entrepreneur decides to buy a business property, they would be able to claim back the VAT charged. Banks, however, generally require that the business be in operation for at least three years, with three years' financial statements on-hand and up-to-date management accounts, explains Holland. ■

editorial@finweek.co.za

"There is also generally at least a 30% equity requirement that a small business would have to take out of operating cash flow to fund the purchase of the property."

WHAT TO ASK WHEN CONSIDERING BUYING:

A potential buyer should ask the following questions, according to Holland:

■ Is there good tenant demand in the area?
■ Is there rental growth in the area?
■ If the business fails, is the property easily re-lettable?
■ Is the price market related?
■ Will the property see future growth; will the business grow as a result of the property? Often premises are purchased for strategic purposes – this may be a shop in a good retail location or a warehouse situated close to a large client.
■ What condition is the property in? A purchasing decision should be made based on the condition of the property; if it's in poor condition, remedial costs should be factored in.

Elton Holland
Director of the Ikon Property Group

Industrial Property to rent in Killarney Industria by Ikon Property Group

WHAT TO LOOK OUT FOR IN A RENTAL AGREEMENT:

When reading through a rental agreement, the lessee should consider the following aspects carefully:

■ Deposit: Is the required upfront deposit reasonable and proportionate to the monthly rental?
■ Escalation: Negotiate the escalation of the rent after 12 months. Don't blindly accept an 8% or 10% increase every year.
■ Fittings and fixtures: Ensure that the contract stipulates which fixed fittings, brought on by the lessee, can be removed from the building once the rental agreement lapses. If this isn't stipulated, they become part of the building.
■ Insurance: In almost all circumstances, the lessor is responsible for insuring the structure of the premises at replacement cost while the lessee is responsible for insuring the content and equipment inside the building.
■ Use of property: Ensure that you understand the limits placed on the use of the property and stick to them.

Negotiate the escalation of the rent after 12 months. Don't blindly accept an

8%

or

10%

increase every year.

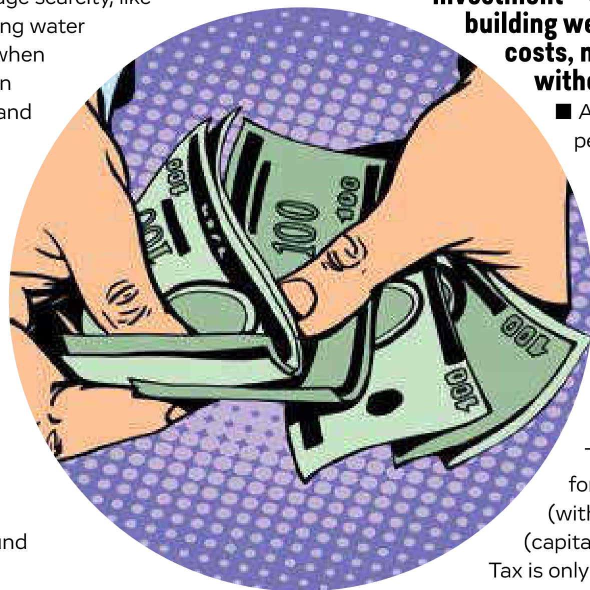
By Nerina Visser

SAVING

Financial success made simple

Every financial decision made in the present will have a tangible effect on your future financial security. There are some core principles to abide by to ensure that your future self isn't short-changed.

We live in an era of information overload but knowledge scarcity, like not having any drinking water during a flood. Why, when there is so much information available on money matters, financial management and investment considerations, do so many people find themselves in financial distress, over-indebted and dependent on others in their old age? Maybe the answer lies in an excessive focus on the complicated, and not enough attention being paid to getting the basics right, living within your means, saving on a regular basis and in a sustainable way.



The critical success factors are really quite simple:

- Don't spend more than you earn;
- Save 10% of every rand you earn to fund bigger item purchases;
- Invest another 10% of every rand you earn in a low cost, tax-efficient investment vehicle and resist the temptation to dip your fingers into it; and
- Pay it forward by helping others – share your knowledge and resources to empower those around you to set them on their own road towards financial freedom.

The first step is the hardest for many people, yet the most crucial part to ensuring financial success. Spending more than you have is no different than robbing your future self. Debt has the power to destroy the best plans and, as much as the compounding of interest works in your favour in saving and investment, it also works the other way, as interest payable can compound to the point of eroding even your non-discretionary spending. Delayed gratification – the willingness to wait before expecting your reward – is a powerful differentiator between the financially free and those who remain broke.

Shorter-term saving for expenditure beyond your regular monthly expenses must focus on capital preservation, rather than seeking return. What this means is that the return, or interest that you earn on these savings, is less important than the amount of money you save and resisting the temptation to spend it outside of its intended purpose. The interest saved by not incurring debt will be much more than any potential interest earned on such savings.

Spending more than you have is no different than robbing your future self.

Save **10%** of every rand you earn to fund bigger item purchases; Invest another **10%** of every rand you earn in a low cost, tax-efficient investment vehicle and resist the temptation to dip your fingers into it.

The critical success factors for longer-term investment – whether for retirement or for building wealth – is threefold: minimise costs, maximise tax efficiency and never withdraw it.

- An annual cost differential of one or two percent may seem insignificant on a one-year basis, but over the 40+ years of building up your wealth base, this can compound to the point of reducing your capital by as much as two-thirds.
- Making maximum use of tax dispensations in a retirement annuity (RA) and tax-free savings and investment accounts (TFSIA) is one of the best ways to increase wealth and boost the size of your asset base. Tax concessions in an RA come in two forms – contributions are tax exempt (within prescribed limits) and growth (capital gains and distributions) is tax-free. Tax is only payable once you start withdrawing after retirement, at which time your overall tax liability should be much lower. A TFSIA, available since March 2015, offers full tax benefits after the initial contributions, which are not tax exempt, and limited in terms of both annual and lifetime contributions. All growth and distributions in a TFSIA are free of tax, there is no lock-up and no tax is payable at the time of withdrawal.
- Preservation of retirement savings is crucial as you move through life, changing jobs; growing your family; or expanding your asset base. Always resist the temptation to use retirement savings to fund short-term needs, get out of debt, or reward yourself with unnecessary 'wants'.

The final component of a successful financial strategy is to share with, and empower others. A singular focus on your own financial freedom and success will not be sustainable if those around you remain a drain on you and your resources. You cannot be an island of prosperity in a sea of poverty. Share your knowledge and your learning, motivate and encourage others to also achieve financial independence and stability and then enjoy the satisfaction of shared success. ■

editorial@finweek.co.za

Nerina Visser, formerly head of beta solutions at Nedbank Capital, is a regular market commentator and director of etfSA.co.za.

Gallo Images/iStock

By Jessica Hubbard

Essential apps for the busy exec

The right mobile applications can help you simplify your life and get more organised, but with the sheer volume of apps out there, the process of finding the right ones can be bewildering and tedious. *finweek* did the work for you and found some apps that will make any entrepreneur or business person's life easier.

Whether you're a high-profile executive managing global teams, or an entrepreneur steering a fast-growing start-up, chances are you're spending a great deal of time communicating and working from your mobile phone. Unsurprisingly, there is a whole new universe of productivity tools and work applications designed to cater for the nomadic professional, and to keep teams and departments ticking around the clock (and around the world).

While the cynics (and yes, luddites) often warn that quirky apps and slick platforms can sometimes prove to be more of a distraction than anything else, the right ones – when used with discipline, energy and focus – can really streamline work processes and make life easier (particularly when you are trying to execute strategies and close deals in an airport or hotel lobby). Here are three apps that we believe should be part of any business leader's mobile toolkit...

Expense management:

1 Expensify

Keeping track of expenses – from Uber receipts to dry cleaning bills, can be an absolute nightmare for the stressed out exec. Meet Expensify. This service was designed to remove the headache, by simplifying the whole process and making it, well, actually kind of fun. You can take pictures of all your receipts (using the mobile app) to save time, and even track your mileage and record it for reimbursements and reports.

Expensify generates those monthly reports for you, using tags to ensure that expenses are correctly filed and categorised. It also allows users to convert global currencies, so – whether you are on a business trip overseas, or buying from an online store that only deals in dollars – filing the transactions for reports is simple and straightforward. The app has also recently integrated with travel-related services (such as Uber) so instead of forwarding travel receipts to receipts@expensify.com, users can just make their bookings with the partner service and the information will automatically be sent to Expensify for reporting. You can start with the basic Team option ($5 per active user per month), which syncs with QuickBooks and Xero, or go for the more sophisticated Corporate or Enterprise options.

It's vital for navigation, finding landmarks or meeting places, and planning routes during the many periods when no connectivity is available.

ARTHUR GOLDSTUCK'S TOP PICKS:

Arthur Goldstuck, MD of technology consultancy World Wide Worx, is no stranger to globetrotting. We asked him what apps and platforms he relies on most heavily to keep in touch while on the go.

Gmail:
It allows me to log onto any device anywhere in the world and have my mail, contacts and calendar immediately to hand. On my smartphones (alternating between Samsung S6 edge and iPhone 6S Plus), the Android and iOS apps make all my current mail available to me – regardless of whether I'm connected – meaning I can catch up on my mountain of mail on a plane or between points of connectivity. New emails or replies are queued until I'm connected, and then automatically sent off.

Here Maps:
It allows offline mapping in any country in the world for which one has downloaded the map in advance. It's vital for navigation, finding landmarks or meeting places, and planning routes during the many periods when no connection is available. I am currently using the Android version, but it was previously called Nokia Maps (originally bought by Nokia from Navteq), and works perfectly on Windows phones, as well as on iOS. It also offers indoor maps for major buildings, but I haven't been that desperate yet. When one is connected, it offers the same kind of traffic information one gets from Google Maps, Waze and TomTom.

WhatsApp:
I tend to keep my phone off networks when I'm out of the country to avoid bill-shock. That means people often can't phone or message me unless they are already contacts, in which case we would typically use WhatsApp – both instant messaging and voice. If someone else needs to talk to me, they would usually have my email before they have my phone number, and can contact me that way.

Collaboration:
2 Slack

Slack is an increasingly popular platform for team communication, and is especially handy for companies that rely on input from people sitting in different locations. It enables real-time messaging and file-sharing, as well as allowing managers and team leaders to create various channels according to specific topics, issues, projects or departments. According to Slack, users have reported a 48% reduction in internal email thanks to the platform, and a 25% reduction in meeting time. We particularly like the search function – which allows users to go back and find key information or review chats. It's also flexible, allowing you to create private groups or send private/direct messages to one person.

Slack integrates with other great work tools such as Dropbox, Trello and Zendesk, and these integrations can be set up to post notifications to Slack as events occur. The app is free to use (with an unlimited number of people), with options to upgrade and pay a monthly fee for more features. In 2016, Slack will introduce an Enterprise option, which will include organisation-wide reporting, metrics and analysis as well as consolidated billing and administration across teams.

Users have reported a **48%** reduction in internal email thanks to the platform, and a **25%** reduction in meeting time.

Project management:
3 Trello

With its highly visual and intuitive user interface, Trello is the ideal project management tool. Essentially, it's a digital 'list of lists' made up of cards that you can move, edit, and rearrange as each project unfolds. You can invite co-workers and teams to specific Trello boards, and keep certain boards private. So instead of trawling through long email threads and trying to update messy spreadsheets, Trello allows you and your co-workers to see the exact project progress, at a glance.

You can easily add people to certain cards to keep track of who is working on what, and you can also add more detailed descriptions, file attachments, links, checklists, labels, etc., to each card. The app synchronises and updates instantly, and it also integrates with other cool services such as Slack, Evernote, Google Drive and Salesforce. Trello is free, with the option to upgrade to Business Class for enhanced features. ■

editorial@finweek.co.za

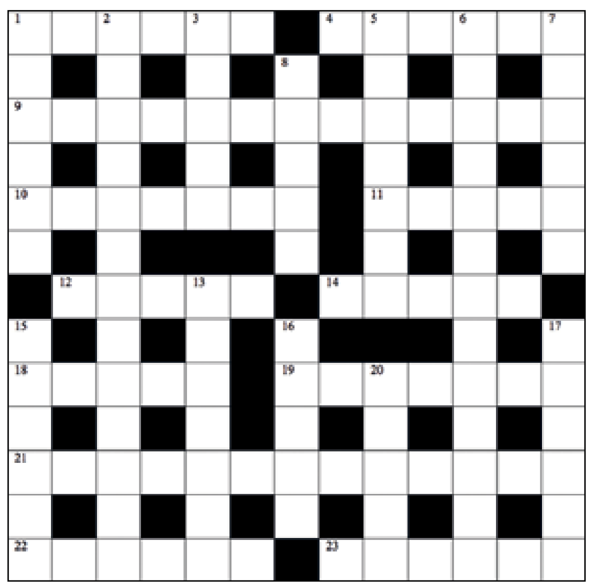
Let's see if you've been keeping abreast of local and international news! The answers to this quiz will be published on fin24.com/finweek on 23 November.

1. **True or false?** Russia is in hot water after international athletics authorities accused its athletes of doping.
2. Above which SA city could strangely shaped 'UFO clouds' be seen recently?
3. With which local bank did Uber recently strike a R200m car rental deal?
4. What fungal disease, which is currently affecting plantations in northern Mozambique, may end up infecting banana plants in SA?
   - Black Rot
   - Panama Disease
   - Aggressive Rootstain
5. Of which country is Santiago the capital?
6. Who or what is Olu Falae?
   - A Senegalese musician
   - A former Nigerian minister of finance
   - Cassper Nyovest's newly launched clothing label
7. **True or false?** The World Health Organization has declared Sierra Leone Ebola-free.
8. Which European airline was affected by a massive strike recently?
9. What is the nickname of the huge dinosaur whose fossilised remains were found near Clarens recently?
10. **True or false?** The city of Calais is situated in the UK.

CRYPTIC CROSSWORD 608 JD

ACROSS
1 Stock answer for objectionable people (6)
4 Turn in the direction of saddlery (6)
9 Religious objection that is hard to answer? (1,6,6)
10 Listen to Cockney promote soundproofing (7)
11 Benefit afforded by a valley, we are told (5)
12 It's too poor a mark to let advert fly (5)
14 Strapping flyer to fly away with learner (5)
18 Still sounds like work to me (5)
19 Struggle to discard the French material for silk (7)
21 Like asteroid crash as source of leading article (9,4)
22 Point to saint of good repute (6)
23 Open jailbird (6)

DOWN
1 Shooting jacket? (6)
2 Not a good account given by black sheep of the family? (1,4,8)
3 Of course, this starts the Irish day at Liverpool (5)
5 Willing to participate in debating contest at Eton (7)
6 Sea anemones, for example, found in Buffalo Springs? (6,7)
7 Animate family led astray (6)
8 Point to advocate's outburst (5)
13 Shaking peaks during rapid eye movement (7)
15 First silent beauty we hear talking (6)
16 No longer anchored, start another journey (5)
17 We see Kurdish leader featured in periodical (6)
20 Fly high in line of the Sun (5)



Solution to Crossword NO 607 JD

ACROSS: 1 On the house; 7 Rum; 8 Exacerbate; 11 Sunshine; 12 Joan; 14 Comedy; 15 Dictum; 17 Ease; 18 Cash scam; 21 Federalist; 22 Nap; 23 Translator

DOWN: 1 Open secret; 2 Train smash; 3 Eyeshade; 4 Orbing; 5 Site; 6 Nun; 9 Postscript; 10 Anemometer; 13 Highball; 16 Tavern; 20 & 19 Gap year

On margin

A man walks into a bar...

An Englishman, a Scot and an Irishman walk into a pub to have a beer.

A fly buzzes around, finally falling into the Englishman's beer. He pushes away his mug and orders another.

A few minutes later a fly swoops down and lands in the Scot's beer. The Scot reaches into his mug, picks out the fly and continues drinking his beer.

A few moments later another fly swoops down and lands in the Irishman's beer. The Irishman reaches into his mug, picks up the fly and starts slapping it on the back, yelling: "Spit it out ya bastard, spit it out!"

A horse walks into a bar. Several people get up and leave because they realise the potential danger of the situation.

A million guys walk in to a Silicon Valley bar. None of them buy anything. The bar is declared a rousing success.

Golf

After a long day on the course, the exasperated golfer turns to the caddie and says: "You must be the worst caddie in the world."

"No, I don't think so," replies the caddie. "That would be too much of a coincidence."

Money

A young banker decided to get his first tailor-made suit. As he tried it on, he reached down to put his hands in the pockets but to his surprise found none.

He mentioned this to the tailor who asked him: "You're a banker, right?"

He answered: "Yes, I am."

"Well, whoever heard of a banker putting his hand in his own pocket?"

A bank is a place that will lend you money if you prove you don't need it.

A man visits his bank manager and says: "How do I start a small business?"

The manager replies: "Start a large one and wait six months."

Marriage

A 60-year-old millionaire has just married a 20-year-old model. "You crafty old devil," says his friend. "How did you manage to get a lovely young wife like that?"

"Easy," replies the millionaire. "I told her I was 95."

My wife and I were happy for 20 years...

Then we met.

"I'm sorry, the position is for a hedge FUND manager."

Verbatim

TaxidriverSipho @TaxiDriverSipho
It's so hot in South Africa... Maybe Zuma ate the money for the rain.

Yaaseen Barnes@Ya_a_seen_Him
As Christmas bonuses this year, all MTN employees are getting R30 airtime and 10 free SMSs.

Sabata @Sabattta
If things aren't going your way, know that you aren't alone. #Lonmin shareholders are with you!

Rebecca Davis @becsplanb
This morning I flew direct from Cape Town to Pretoria for the first time. I felt like a Gupta.

Al Prodgers @alprodgers
Fair's fair. If government buys the president a #ZumaJet, we get to hear him read out the price.

Ferial Haffajee @ferialhaffajee
I guess a jet's just the thing you need to fly off a fiscal cliff.

Tom Eaton @TomEatonSA
For R4-billion, Zuma and 29 cronies could do 40 round-trips a year to New York, British Airways 1st class, for 27 years. #ABetterLieForAll

Darrel Bristow-Bovey @dbbovey
Students: Fees must fall.
Zuma: What?
Students: Fees must fall!
Zuma: SPEAK UP! THESE JETS ENGINES ARE REALLY LOUD!

"If you never miss a plane, you're spending too much time in airports."

– Dale W Jorgenson, economics professor at Harvard University (1933-)